Austria	Sch22	Indonesia	Rp3200	Portugal	Esc100
Bahrain	Din0.450	Israel	NIS3.50	S.Arabia	Rls7.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rs30
Denmark	DKr8.00	Kuwait	Fils500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	[illegible]	Switz.	SFr2.20
Finland	Fmk7.00	Lux	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bt50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,428 Monday January 4 1988 D 8523 A

China's press leads consumer rights battle, Page 2

World News

Saudis to levy income tax on expatriates

Saudi Arabia announced an expatriates-only income tax to become effective this month. The tax will range from 5 per cent to 30 per cent depending on earnings, and some expatriate workers will be exempt. **Page 14**

Indians sink Tamil boat

At least 21 Tamil rebels were killed when Indian naval gunboats sank a vessel off the northern Jaffna peninsula, Sri Lankan military officials said.

Iran 'training Afghans'

Iran was instructing Afghan guerrillas in special schools and giving them practical battle training in the Gulf war, the Soviet newspaper Izvestia said.

Colombians upset

Colombia said it had never promised the US it would hold reputed drug baron Jorge Luis Ochoa in jail and called Washington's attitude about the case offensive.

Bangladesh demo

Bangladeshi police used teargas and truncheons to break up a demonstration in Dhaka by 10,000 protesters urging voters to boycott parliamentary elections planned for February 28.

US oil spillage

A massive oil spill from a factory near Pittsburgh stretched along 24km of the Mooonganhela River, forcing the evacuation of 1,200 people because of fire risk.

Post for Nkomo

Zimbabwe's executive president Robert Mugabe included former opposition leader Joshua Nkomo in a new 27-member Cabinet, consolidating a merger of the country's two political parties.

Widow wins job

The widow of Tamil Nadu film star and politician M.G. Ramachandran won a battle to succeed her husband as chief minister of the southern Indian state. She had no experience in politics or administration. **Page 3**

Philippines shootings

Gunmen wounded the head of a presidential anti-gambling task force in the Philippines and killed two of guards. In separate incidents, three candidates for regional elections this month were killed and six people died in fighting on Mindanao Island.

Gorbachev visit likely

Soviet leader Mikhail Gorbachev seemed likely to visit West Germany this year. **Page 2**

Natal feuds toll

Ten more blacks died in heightened feuding in Natal and a leading black newspaper said the fighting cast a shadow of anarchy over the dream of a post-apartheid South Africa. **Page 2**

Air crash theory

Turkish officials said sabotage might have caused the crash of a West German Boeing 737 near Izmir in which all 16 people on board were killed.

Uruguay rail protest

Railway workers and passengers demonstrated against a Uruguayan Government decision to end all passenger train services.

Supplies for Khost

The Afghan Government said a relief convoy reached the town of Khost, besieged for three months by Western-backed rebels.

Soviet space plans

The Soviet Union will add extensions to its manned orbiting station Mir this year, conduct space research with France and Poland and send a probe to one of the moons of Mars, according to a senior space official.

Defector returns

Former West German army major Bruno Winzer, 75, returned to his homeland almost 28 years after defecting to East Germany.

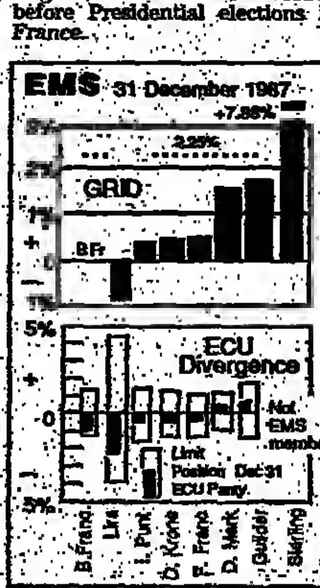
Business Summary

Japanese take 48% of chips market

JAPANESE companies claimed 48 per cent of the world semiconductor market in 1987, with Toshiba moving up to second place behind Nippon Electric. **Page 17**

FRENCH authorities are expected to approve a FFr3.68bn ($694.3m) bid by Grand Metropolitan, UK drinks group, for Martell, 272-year-old French cognac house, according to Mr Georges Chavanes, French minister for commerce, services and craft industries. **Page 17**

EUROPEAN Monetary System: Currencies traded quietly over the post Christmas period, with the dollar's continued fall catching most attention. Most traders expected continued downward pressure on the dollar and this gave rise to fears that the strength of the D-Mark would create further strains within the EMS. Weaker currencies were still within their divergence limits but there was doubt as to whether some form of realignment could be avoided before Presidential elections in France.



The chart shows the two constraints on European Monetary System Exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

TOKYO: The market opens today after a prolonged holiday closure.

FLETCHER CHALLENGE, New Zealand forest products group, has completed its C$19 a share offer for British Columbia Forest Products by increasing its overall holding to 67.5 per cent from 48 per cent. The move sidesteps criticism from some institutions that the price was too low.

TAIWAN authorities have detained several officials of stockbroking firm Da Shing while investigating possible illegal trading after a major default. **Page 17**

DEE CORPORATION, the supermarkets business, is considering severing links with Citibank, because of the US bank's role in financing Barker & Dobson's hostile £2bn bid for Dee.

SAUDI ARABIA is to open a government securities market this year. **Page 15**

VENEZUELA: Direct foreign investment in Venezuela stood at $1.795bn at the end of 1987, up 36 per cent — or $477m — from the figure for year-end 1986, according to Mr Juan Carlos Perez-Segnini, Venezuela's superintendent of foreign investment. **Page 2**

FREE TRADE pact between the US and Canada was signed on Saturday by President Ronald Reagan and Prime Minister Brian Mulroney in simple ceremonies held nearly 3,000 miles apart. **Page 2**

INDONESIA expects to earn $1bn from tourism in calendar 1988, up from around $700m in 1987, Tourism Minister Achmad Tahir said.

MALTA Premier visits Libya today to sign a deal for Libyan oil at below the official Opec price.

Hong Kong acts to calm reopening of stock exchange

BY DAVID DODWELL IN HONG KONG

The management of the Hong Kong Stock Exchange has been transferred to a special committee as part of a series of moves aimed at ensuring that trading will not be disrupted when the market reopens this morning following the arrest of Mr Ronald Li, the exchange's former chairman, and two other stock exchange officials.

In the wake of the arrests at the weekend, a number of urgent meetings were called across the territory to try to ensure that trading would run smoothly.

The Government demanded that certain members of the stock exchange committee should "distance themselves" from the management of the exchange, in case of conflicts of interest, or in case they had to provide information to investigators from Hong Kong's powerful Independent Commission Against Corruption.

The request was followed by news from the exchange that its general committee was in effect being suspended, with its powers being transferred to a special management committee.

The new committee does not include Mr Charles Sin, who took over as chairman of the exchange from Mr Li less than a month ago, or four of the exchange's five vice-chairmen. Mr C.W. Tsang, secretary to the management committee, has also been replaced.

The arrest of the exchange's controversial former chairman and two other official by the commission was in connection with inquiries in progress for many months into the operations of the stock exchange.

After a day of interrogation, Mr Li, who is still a vice-chairman of the exchange, was released on bail of HK$10m ($1.29m). No charges have been laid against Mr Li or the other officials — Mr Jeffrey Sun, chief executive, and Mr Donald Tsang, head of the listings committee.

Ronald Li: released on bail

All three have surrendered their passports. An official of the commission — which answers only to the Governor — said only that inquiries were continuing.

It has nevertheless been made clear that the arrests have no direct link with the October collapse of world stock markets. The commission inquiry is thought likely to be concerned with company share listings and related exchange operations.

In theory, the arrests should not affect stock market trading, but the exchange has for so long been tightly controlled by Mr Li, and so closely linked with him, that a negative reaction cannot be ruled out. Officials of the London and New York stock exchanges were kept informed over the weekend.

Worries about a negative market response were in part based on awareness that the reputation of Hong Kong's securities industry was tarnished during the world stock market crash, and has yet to be repaired. At that time, Mr Li played an important part in a controversial decision to suspend trading for four days.

Many claim this decision — which was unique among the world's main bourses and sat uncomfortably with the territory's claim to be a free market — was why share prices fell further when the exchange eventually opened than they had in any other leading market. Many shares are still languishing at between 20 and 50 per cent of their pre-crash value.

Since the collapse — which forced a HK$2bn rescue of the bankrupted local futures market — Hong Kong Government officials have taken a number of steps to restore confidence, although until Saturday's arrests they took no steps to distance Mr Li from the daily operation of the exchange.

Mr Robert Fell, the territory's former Banking Commissioner, has been brought out of retirement to act temporarily as senior chief executive. Headhunters have been appointed to find a full-time professional chief executive.

In addition, a formal inquiry has been set up into the running of the securities industry. This is headed by Mr Ian Hay Davison, the former chief executive at Lloyd's of London, and is expected to propose major reforms when it reports in the middle of this year.

For local and international stock market operators who after the collapse sought commitments from the Government that operations would be significantly tightened, news of Mr Li's arrest — whether charges are brought or not — will bring comfort that their complaints of slipshod exchange management and idiosyncratic practices are being taken seriously.

There was no indication yesterday of how long the commission investigation would continue, of any charges that might be laid against the three arrested men or of any further possible arrests.

Li's fall from grace, Page 17

Moscow ministries are 'undermining' reforms

BY CATHERINE MCELHINNEY IN MOSCOW

GOVERNMENT ministries in Moscow are undermining crucial economic reforms introduced in Soviet industry, a leading Soviet economist has warned.

Mr Nikolai Shmelyov, an influential Soviet economist, writing in the progressive weekly Moscow News, said that the new Law of State Enterprises, the centrepiece of Mr Mikhail Gorbachev's economic reforms, is expected to have little impact.

The law, passed last summer and implemented at the start of this month, aims to reduce the ministerial authority by switching 60 per cent of all Soviet industry to cost-accounting, giving industrial managers greater decision-making power and making enterprises responsible for their own financing.

However, he warns that industrial financial independence is being curtailed by the ministries who intend to cream off large percentages of profits.

"Ministries have decreed a long-term norm of deductions from the enterprises' profits to the ministries' funds to the tune of 80-90 per cent or even more for some industries," he said.

Little seems likely to change from the past, he said.

Ministries will continue to control the spending of all enterprise funds.

"Equally, nothing can be bought without first asking permission from the ministry."

Mr Shmelyov notes that orders of state organisations account for 80 per cent of the enterprises' production and, in some industries, even 100 per cent.

This is merely a continuation of central planning under a different name, he said.

On agriculture he argued that in order to bring changes common sense was required to release the farmer "from the pressure of the pyramid of administration, the uselessness of which is now clear to everyone but which provide a job and a cosy existence for people."

He said that the conservative forces holding back the second stage of "perestroika" (restructuring) might be motivated by a desire to retain their privileges, or by economic ignorance or inertia.

Mr Shmelyov's critical warning came after a spate of articles in the Soviet press in the weeks leading up to the introduction of the law which discussed the confusion and doubts assailing the industrial sector.

Sanofi wins control of Robins

BY PAUL BETTS IN PARIS AND ANATOLE KALETSKY IN NEW YORK

SANOFI, the French pharmaceuticals company controlled by the state-backed Elf-Aquitaine oil group, has emerged as the winner in the battle for control of A.H. Robins, the bankrupt US pharmaceuticals concern.

Robins, which filed for Chapter 11 protection from its creditors in 1985 following a series of lawsuits over its Dalkon Shield contraceptive device, selected Sanofi above Rorer and American Home Products, both of the US.

Sanofi is expected to acquire a stake of about 60 per cent for as much as $600m. It will also provide a $2.375bn credit line for a trust fund to administer and settle the Dalkon Shield claims. The trust fund will receive an initial $100m cash payment.

The deal will have to be approved by Judge Robert Merhige, the federal bankruptcy judge who has been supervising Robins' operations. Sanofi's proposals for spreading out payments to Dalkon Shield claimants over five years will be particularly scrutinised.

The attitude of the claimants also remains in question. Some may appeal against any approval of the latest deal on the grounds that payments made by Sanofi to Robins' shareholders should instead be added to the Dalkon Shield trust fund.

Further, the financial implications of the deal have still to be clarified. Sanofi's offer appears to value the company's total equity at around $1bn or almost $40 a share, a much higher price than the $450m offered by Rorer and the $550m bid by AHP.

However, Sanofi wants to invest in Robins by buying convertible preferred stock from the company itself rather than by buying shares from Robins stockholders. It will therefore be several days before analysts come to a firm conclusion about the true cash value of the bid.

Sanofi's commitment to maintain Robins' existing top management is believed to have helped it win favour at the head of the US pharmaceuticals group.

The French Government is understood to have followed the transaction closely — it is the principal shareholder of Sanofi through its controlling stake in Elf-Aquitaine. The Government was apparently keen to ensure that the acquisition would be financed by Sanofi and not by Elf.

Israeli air raids on targets in Lebanon kill 19

By Nora Boustany in Beirut

ISRAELI AIRCRAFT and helicopters attacked Palestinian targets in Lebanon on Saturday night, killing 19 people and wounding at least 14, according to Lebanese police and hospital officials.

The raids appeared to be the long-awaited reprisal for the Palestinian hang-glider attack against an Israeli military camp on November 25 in which six Israeli soldiers died and eight were wounded. Israel had vowed to avenge the attack but, under US pressure did not retaliate immediately.

Yesterday the Israeli Army insisted that the raids were not "specifically" in retaliation but rather part of the "continuing policy of war against centres of terrorist activity in Lebanon."

The Israeli attacks targeted Palestinian bases in Druze-controlled hills and coastal villages north-east and south of the port city of Sidon.

Israel defied US pressure and served deportation orders on nine Palestinian activists in the occupied West Bank and Gaza Strip.

Security forces were alerted in anticipation of renewed disturbances after the announcement and following the death of a 25-year-old woman, killed when border police fired at rioters in a village north of Jerusalem. Page 2

Israeli aircraft bombed military and civilian concentrations in the coastal villages of Damour and Jiyeh, as well as the Sunni Moslem township of Barjah, all under Druze control, while helicopter gunships laid down a barrage of covering fire and other Israeli jets dropped flares.

Near Sidon, Israeli jets raided guerrilla positions around the Palestinian refugee camp of Ain al Helweh and the Awali junction, only a short distance away from Syrian-manned checkpoints.

In Barjah, a small village nestled in the foothills of the Chouf mountains, six houses were flattened and a two-storey building brought down. The area, known as Iqlim al Kharroub, has been under control of the mainly Druze Progressive Socialist Party for the past five years.

A guerrilla base hit there belongs to the pro-Syrian Popular Front for the Liberation of Palestine, which claimed responsibility for the November hang-glider attack.

The multiple Israeli air raids followed a two-day standoff

Continued on Page 14

The UK Chancellor tells Philip Stephens how he sees 1988 economic prospects

Weak dollar the principal threat

THE "excessive and unprecedented" fall in the value of the dollar poses the main threat to world economic prospects in 1988, but there are no signs of an impending recession, Mr Nigel Lawson, the Chancellor, says today.

In a new year interview with the Financial Times, Mr Lawson says he remains committed to seeking to hold sterling stable against other major currencies, above all against the D-Mark. The informal link with the West German currency established last year is "what British industry wants," and provides an easily recognised anchor against inflation, he argues.

In a confident assessment of Britain's prospects for 1988, the Chancellor predicts a further year of healthy economic growth and a continuing fall in unemployment, in spite of October's stock markets crash.

He confirms that tax reform remains one of the Government's priorities, but indicates that the cuts in income tax expected in the spring Budget will not come at the expense of much higher public borrowing.

Mr Lawson acknowledges differences between the Group of Seven industrial nations over policy co-ordination, but says its recent communique underlines a joint commitment to a co-operative strategy.

In spite of the political obstacles, he says that recent events have reinforced his determination to press a plan for a system of "managed floating" of exchange rates to secure greater worldwide stability.

Mr Lawson says the Government is determined to see a further fall in Britain's inflation rate, but adds that it has no plans to set a precise timetable for its eventual goal of stable prices.

Q. The world stock markets' crash has cast a shadow over economic prospects. Are you confident that Britain's economy will continue to grow fast enough in 1988 to bring further falls in unemployment?

A. What has cast a shadow over world economic prospects is not so much the sharp fall in equity prices, which has to be seen in the context of the far more massive rise over the past five years — indeed share prices still managed to end 1987 higher than they began it, as the excessive and unprecedented fall in the dollar. Happily, however, it is now clear that prior to the collapse of confidence in the financial markets most of the major economies — including in particular our own — were growing more vigorously than the pundits had recognised. So although I would expect some slowing down in world economic growth in 1988, I see no sign whatever of recession. So far as the UK is concerned, the Autumn Statement forecast of 3 per cent growth for the non-oil economy, although well below the likely 1987 outturn, would be a thoroughly healthy performance, achieved only once in the whole of the 1970s, and I would expect it to be accompanied by further falls in unemployment. I will, of course, be publishing a further forecast at the time of the Budget.

Q. You have sought to mitigate the impact of the crash through cutting interest rates. Will this continue to be the policy? How determined are you to hold sterling below DM3.00 through intervention and cuts in interest rates?

A. The 1½ per cent reduction in UK interest rates to which you refer — which it is important to recall, followed a 1 per cent increase in August — and the decision to let some of the recent foreign exchange market intervention temporarily to add to domestic liquidity, do not imply any weakening in the Government's commitment to defeat inflation. These steps were needed partly to maintain confidence at a particularly delicate time and partly to offset the tightening in monetary conditions brought about by the fall in the equity market and the rise in the sterling exchange rate.

I have made it plain that it makes sense to continue to pursue a policy of seeking stability for sterling, with the exchange rate against the D-Mark being of particular importance. This is what British industry wants, and at the same time it provides an anchor against inflation which the markets can readily understand. We have demonstrated our commitment to this aim throughout the past year.

Q. If the pace of economic growth slows significantly, is there scope for a relaxation of fiscal policy, particularly since public borrowing here is lower than in, say, West Germany?

A. The German economy is currently suffering from a sluggish growth rate, which automatically leads to increased public borrowing unless measures are taken to reduce it — steps which would not be warranted in current circumstances. That is not the case with the British economy, which looks set to grow at a satisfactory pace in 1988. I will, of course, decide the appropriate level of next year's public sector borrowing requirement at the time of the Budget, when the prospects for 1988-89 will be clearer than they are today. But what I can say is that the soundness of our public finances is a

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CONTENTS

Israel to expel 9 Palestinians in occupied area

BY ERIC SILVER IN JERUSALEM

ISRAEL yesterday defied US pressure and served deportation orders on nine Palestinian activists in the occupied West Bank and Gaza Strip.

Security forces were alerted in anticipation of renewed disturbances after the announcement of the expulsions and after a 25-year-old woman was killed when a border police patrol fired live ammunition against rioters in the village of a-Ram, north of Jerusalem.

Two of the soldiers, a company commander and a private, were suspended from duty last night on suspicion of violating regulations governing the use of live rounds.

Five of the nine to be deported are from the West Bank and four from Gaza. Most of them have served prison sentences for security offences. Two were released in May,1985, when Israel exchanged 1,150 Arab prisoners for threesoldiers captured in the Lebanon war.

A military spokesman identified five of the nine as with the mainstream Al Fatah organisation of Mr Yasser Arafat, one with Mr George Habash's Popular Front for the Liberation of Palestine, and three with Muslim fundamentalist groups.

None belonged to Mr Ahmed Jibril's Popular Front (General Command), Israel's partner in the 1985 exchange. The Jibril organisation was the main target of an air strike early yesterday on Palestinian bases in southern Lebanon, in retaliation for a hang-glider raid which killed six Israeli soldiers in November.

The nine have 96 hours to decide whether to appeal, first to a military panel, then to the Israeli Supreme Court. All are in custody, having been arrested during the December unrest. They are alleged to have incited young Palestinians to fight the occupation, though not all are accused of specific offences in connection with the latest disturbances.

A military spokesman told foreign correspondents that deportation was being used as "the most extreme measure after all others had failed." He indicated that, unless there were a return to disruptions on the December scale, no-one else would be deported.

As a further incentive to the Arab population, Israel yesterday released 100 of the 1,300 Arab youths detained in the past three weeks, with the promise that more would follow if peace prevailed.

The spokesman declined to say where the deportees would be sent. Jordan and Egypt have announced that they will not accept them. The only alternative would be Lebanon.

The US, Israel's most powerful ally, had warned Jerusalem not to resort to deportations. Prime Minister Yitzhak Shamir and other ministers replied that Israel alone could decide how to look after its own security. Deportation remained a live option. The Government hopes Washington will acquiesce in the use yesterday of this weapon against hard-core activists.

According to the army, 19 Palestinians have been expelled since the present coalition resumed this policy in August 1985. Three more cases are under appeal.

Islamic ministers to discuss Arab unrest

ISLAMIC ministers will discuss the unrest in Israeli-held Arab territories today, and Palestinian sources said yesterday that the Palestine Liberation Organisation would urge full support for Arabs there, **Reuter reports from Rabat.** "We shall ask for all possible support and help to our brethren in the occupied territories," a PLO official said.

The PLO is on the Islamic Conference Organisation's 15-member Jerusalem Committee, which Morocco's King Hassan has summoned to discuss what he called the bloody events in the occupied territories and to adopt "a clear and sound position, without any sectarian or partisan spirit".

King Hassan called for an Islamic summit last year following violence between Iranian pilgrims and Saudi Arabian security forces in Mecca in July but diplomats say the response was poor.

The UN Security Council and the US, Israel's main ally, severely criticised Israeli methods of suppressing what the Arabs have termed the December 9 uprising in the Gaza Strip.

Israeli troops shot dead at least 23 Palestinians in disturbances which spread to the occupied West Bank. Hundreds of Palestinians were arrested.

The Jerusalem Committee was originally due to meet eight days ago but the meeting was postponed at Saudi Arabia's request because the date clashed with a Gulf Co-operation Council summit in Riyadh.

Diplomats did not expect Iran and Syria to attend the two-day meeting at foreign ministers' level.

Bulgaria may let more ethnic Turks emigrate

BY DAVID BARCHARD IN ANKARA

A DEAL between the Turkish and Bulgarian governments may mean that some ethnic Turks in Bulgaria may be allowed to join their families in Turkey, Mr Turgut Ozal, the Turkish Prime Minister said.

Mr Ozal was speaking at a press conference to mark the return to Turkey of Miss Aysel Ozgur, 16, after an 18-month campaign by the Turkish press.

The prime minister said that the Bulgarian authorities had allowed Miss Ozgur, who had been separated from her family for five and a half years, after Turkish television had agreed to halt transmission of a series of programmes about the sufferings of Turkish families in Bulgaria.

The plight of the 800,000 ethnic Turkish minority in Bulgaria has been a leading national issue in Turkey since the Bulgarian Government embarked on a forcible Slavicisation policy three years ago.

All ethnic Turks have been forced to adopt Bulgarian names and abandon their Turkish identity. According to Amnesty International, nearly 100 Turks have been killed by the Bulgarians for resisting these policies.

Bulgaria denies that there has been any persecution of the Turks and says that the name-changing has been voluntary. However it has not allowed Turkish or other independent international observers or journalists to travel to the main Turkish settlement areas.

Turkey has said that it would be willing to take all 800,000 of Bulgaria's ethnic Turks. Bulgaria has rebuffed the proposal.

The dispute is likely to be a big issue at a summit meeting of Balkan states to be held in Belgrade on February 12.

In the last year Bulgaria has allowed 36 ethnic Turks, mostly children to rejoin their families in Turkey. Mr Ozal's deal appears to mean that this process will be stepped up.

Donat Cattin: behind courtroom bars.

Italian minister's terrorist son freed

By John Wyles in Rome

"COMMANDANTE ALBERTO", a former left-wing terrorist leader, self-confessed triple murderer and son of a leading Christian Democrat politician, has quietly returned to society after a comparatively heolgo seven-year term of imprisonment.

The release of 34-year-old Marco Donat Cattin was only confirmed at the weekend although it seems that his debt to society was declared legally paid just before Christmas. In fact, the handsome, dark-haired moustachioed former leader of "Prima Linea" appears to have been enjoying nearly ***full freedom since last May.***

To some magistrates and observers, the young Cattin has long seemed to enjoy a treatment whose benevolence may not have been totally unconnected with the fact that his father is Mr Carlo Donat Cattin, the Minister for Health and a faction leader of some importance in the Christian Democrat party. Mr Francesco Cossiga, President of Italy, realgoed as prime minister in late 1980 amid allegations that he had warned Donat Cattin Sr of the immioence of an arrest warrant for his son.

The official line is that the former terrorist's 12 years of imprisonment have been commuted because of his clear dissociation from his past associates and because of the help he provided the authorities in naming and capturing other terrorist leaders. His lawyers and some investigating magistrates have denied that he ever discussed individuals other than those involved in the crimes he committed.

These included the murder in January 1979 of the Milanese judge, Mr Emilio Alessandrini, the murder two months later of a student in Turin and also of a Turio barmao in July of that year.

Donat Cattin was arrested in Paris in December of 1980 after being implicated by another terrorist who had turned state's evidence. After earolog seoteoces totalling 12 years from a number of courts, the young terrorist acquired an extra two months for making love to a yooog woman in the prison at Alessandria.

Paradoxically, his release coincides with a period of ***increasingly intense debate*** **abnnt the futore of the political institutions which he and his comrades of the ao-called** ***anni di piombo*** **(years of lead) were bent on destroyiag. Io his New Year's Eve message, President Cossiga asserted that the constitutioo, which celebrated its 40th anniversary last month, oeeded only an "adjustment".**

Gorbachev likely to visit Bonn this year

BY DAVID MARSH IN BONN

MR MIKHAIL GORBACHEV, the Soviet leader, looks likely to visit West Germany this year, after the successful trip to Moscow last week by Mr Franz Josef Strauss, the Bavarian Prime Minister.

Mr Yuli Kvizinsky, Soviet Ambassador to Bonn, said in a newspaper interview yesterday that a visit by Mr Gorbachev was under discussion, but a final decision would depend on "the activities of both sides" in coming months.

Signalling Moscow's wish to win compliance from Bonn over further disarmament moves and on co-operation over high technology, Mr Kvizinsky said the German-Soviet political dialogue had increased in quality.

He called for the two sides, in parallel or together, to adopt common goals on further Geneva disarmament talks. He also urged "new forms of economic ties", involving a firmer commitment to the Soviet market by West German concerns. If West Germany wanted to build up its position in the Soviet market, "you have to put in not just one leg, but to step in all the way," he said.

Relations between Bonn and Moscow have warmed considerably over the past six months. This follows difficulties a year ago after a hapless remark by Chancellor Helmut Kohl, comparing indirectly Mr Gorbachev with Josef Goebbels, the Nazi propaganda chief.

The improvement partly mirrors the super-powers' disarmament breakthrough, but also reflects Moscow's specific desire to play the German card in improving links with the West.

A visit to Bonn this month by Mr Eduard Shevardnadze, Soviet Foreign Minister, will help to prepare a prospective Gorbachev foray to Bonn.

Mr Strauss, leader of the ultra-conservative Bavarian Christian Social Union party, had not visited Moscow before during his long political career. This was on the grounds that the Soviet Union *had not been prepared to* give him a high-level reception. All this was forgotten last week when the Bavarian leader was visibly pleased and surprised by the warmth of his welcome, marked by a cordial interview with Mr Gorbachev.

The Soviet leader paid tribute to Mr Strauss's "realism" and held out an olive branch towards ideas on German unity by going along with the notion that East and West Germany remained a single nation split into two states.

At a news conference in Munich on his return, Mr Strauss said Bavarian companies in the machine tools, vehicles, electrical and medical sectors would profit from his visit.

To build up atomic energy co-operation, the Soviet Union expressed interest in visiting the controversial Wackersdorf nuclear reprocessing plant, now in the early stages of construction in eastern Bavaria.

During Mr Strauss's stay, the Kremlin is believed to have put forward traditional complaints over impediments to trade caused by Western controls on export of technology to the Soviet bloc. Mr Strauss said in Munich that the list of embargoed technology maintained by the Cocom organisation, which supervises this matter, was becoming less of a hindrance in view of political rapprochement.

Mr Strauss, who is also chairman of the supervisory board of Airbus Industrie, said the idea of Airbus sales to Moscow did not come up.

The Soviet news agency Tass announced yesterday that Mr Milos Jakes, the new Czechoslovakian leader, will visit the Soviet Union soon, AP reports from Moscow.

Tass said only that the working visit would be "in coming days" at the invitation of the Soviet Communist Party Central Committee, headed by Mr Mikhail Gorbachev.

The visit will be the first for the 65-year-old Mr Jakes since he succeeded Mr Gustav Husak as party leader in mid-December. Mr Husak had been in power since the Soviet invasion of Czechoslovakia in 1968 that ended the political debate and reforms which have come to be known as the Prague spring.

Czechoslovakia is weighing the need for economic and social changes of the type being attempted in the Soviet Union, but Mr Jakes is not considered to be a strong proponent of reform.

Tass gave no indication of the agenda for the visit, but a leader of such a Soviet ally would be sure to meet Mr Gorbachev and the two men would be likely to discuss Prague's economic and social concerns of the next few years.

French political financing bills soon

BY PAUL BETTS IN PARIS

THE French conservative government has confirmed its plans to table two bills on political party financing this month, before next spring's presidential election.

The two bills will set a ceiling on election campaign funds and will oblige candidates in presidential, legislative and local elections to disclose their personal wealth.

The government will also ask the French parliament to draw up proposals on the financing of political parties which could include a contribution from the state budget as well as private sources.

The office of Mr Jacques Chirac, the Prime Minister, indicated at the week-end that the two bills were expected to be tabled in an extraordinary session of parliament before the end of this month after they had been approved by the Council of State and the cabinet.

President Francois Mitterrand has already agreed to a special session of parliament to debate the new political party financing legislation.

The decision to introduce political party financing legislation for the first time in France was taken last year by Mr Chirac in the wake of *a growing series of* controversies over dubious political funding practices in France.

Mr Chirac has already met, on two separate occasions in November and last month, the leaders of all the main political parties to discuss this delicate issue.

Although the government has not disclosed the details of its proposals, the ceiling for presidential election campaign spending for individual candidates is expected to be set at about FFr100m ($10m) to FFr150m.

The main political parties appear to agree on the broad principles of the two new bills to set a ceiling on campaign expenses and force candidates to disclose their personal wealth.

However, there are wide differences in appreciation over the financing of political parties, with the left favouring a state-funded system and the right preferring a private or at least mixed private and public funding system.

In a clear effort to avoid finding himself in the middle of a new political controversy, Mr Chirac has thus preferred to side-step this thorny issue by referring it to parliament, asking it to make specific proposals rather than tabling a *government bill at this stage.*

Canada, US sign trade pact

By David Owen in Ottawa

THE FREE TRADE pact between the US and Canada was signed on Saturday by President Ronald Reagan and Prime Minister Brian Mulroney in simple ceremonies held nearly 3,000 miles apart.

While President Reagan accomplished the task in the seclusion of a lavish private estate in Palm Springs, California, Mr Mulroney completed the signing with little fanfare in his Ottawa office.

The event was greeted by a series of minor demonstrations held by supporters and opponents alike in locations ranging from Parliament Hill in Ottawa to the Ambassador Bridge linking Detroit and Windsor.

In a statement issued to mark the signing, President Reagan emphasised the international importance of the deal, claiming that it "will encourage supporters of free trade throughout the world".

"The creation of the world's largest free trade area will be a mark of leadership," Mr Reagan added, "and presents an historic opportunity to the United States and Canada."

The agreement still faces political hurdles on both sides of the border before its scheduled "January 1, 1989 effective date. Legislation to implement it must be passed by both Houses of Congress and the Canadian Parliament.

In the US, proponents fear that Congress may use its approval as a bargaining chip to secure Administration concessions on the omnibus Trade Bill. Meanwhile, both principal Canadian opposition parties have vowed to fight the pact, with the Liberal leader, Mr John Turner, described as "the Sale of Canada Act".

Gulf states' unified currency plan runs out of steam

AN AMBITIOUS scheme for a unified currency system among six Gulf states has run out of steam, with leaders reluctant to sever a traditional link to the dollar and turn their backs on Washington, according to bankers, **Reuter reports from Bahrain.**

Moderate Gulf states appear to have decided that now would be the wrong time to act as the US lobbies hard for an end to the Gulf War and its navy protects Kuwaiti oil tankers from Iranian attack in the waterway's dangerous shipping lanes.

"Leaders seem to have decided there was little to gain politically from turning their back on the dollar," said one Gulf-based banker. "It would give the wrong signal."

The six states – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates - are heavily dependent on the dollar, the currency in which they sell oil.

The plan to bring together the six states' currencies within a common framework, based loosely on the successful European Monetary System (EMS), was widely discussed during 1987 and detailed technical models were formulated.

A key point would have been to break with a close link to the dollar and instead create a peg to a basket of currencies reflecting the trading patterns of the six states more closely.

But when the six leaders of the Gulf Cooperation Council (GCC) met in Saudi Arabia last week for their annual summit, discussion of economic matters was overshadowed by the Gulf war.

The summit communique mentioned the scheme in just one paragraph, saying the council looked favourably upon steps undertaken towards the approval of a common denominator for GCC currencies as an important step in the framework of co-ordinating financial and monetary policies ...

One banker commented: "The communique shows the leaders want to be seen to be following up the subject, but it really masks a lack of real progress."

Oman pegged its rial to the dollar in 1973, while the Saudi, Bahraini, UAE and Qatari currencies are all in practice linked to the dollar. Kuwait pegs its dinar to a basket of currencies, but it is weighted heavily towards the dollar.

Apart from the political sensitivities, there appears to be considerable debate among the Gulf states over what would be the proper peg for their currencies.

Some favour using the International Monetary Fund's (IMF) basket, the Special Drawing Right, made up of the West German mark, Japanese yen, French franc, British pound and the dollar.

Others argue for a basket of currencies tailored specifically to the region. This too has sparked a conflict of interest since the Gulf states pursue different investment policies and a change might expose some to greater currency risks than others.

Saudi Arabia, for instance, has invested heavily in the US bond markets, while Kuwait has used its oil wealth to buy shares, often in European markets.

Once a common peg was agreed, the six currencies would be allowed to fluctuate against each other by a maximum of 7¼ per cent.

Central banks would intervene from a joint fund to keep currencies within those parties in a system very similar to that now in operation in Europe.

But one banking source said: "There is still an awful lot that needs to be done. The scheme has not been shelved, but I simply could not say how long it will take to be implemented."

Jordan expects further violence on West Bank

By Our Amman Correspondent

JORDAN'S Prime Minister Zeid al-Rifai predicted yesterday that more violence between the Palestinian inhabitants of the Israeli-occupied West Bank and Gaza would flare in the absence of prospects for a political solution to the Arab-Israeli conflict.

"What happened was a spontaneous reaction of the people refusing continued occupation without any hope of a settlement in sight," Mr Rifai said.

"We believe that as long as there is no chance of a settlement in sight, what happened in the West Bank and Gaza is only a beginning," he added.

The Jordanian Prime Minister said that Jordan felt that the only way to achieve a peaceful Middle East settlement was through the convening of a UN-sponsored conference to be attended by all the parties to the conflict and the five permanent UN Security Council members.

He denied recent statements made by Israeli Foreign Minister Shimon Peres that there was a document of understanding known as "the London paper" between Jordan and Israel on the proposed conference.

However, Jordan had discussed the powers, scope and issue of representation.

Venezuela attracts 36% more foreign investment

BY JOSEPH MANN IN CARACAS

DIRECT foreign investment in Venezuela stood at $1.795bn at the end of 1987, up 36 per cent – or $477m – from the figure for year-end 1986, according to Mr Juan Carlos Perez-Segnini, Venezuela's superintendent of foreign investment.

Mr Perez-Segnini said that about 80 per cent of the investment increase came from reinvestment of retained earnings and of other credits held by foreign companies already located in Venezuela. However, he noted that a considerable volume of new investment funds entered the country in 1987, a marked improvement over previous years.

In 1986, Venezuela issued a new foreign investment code which eased conditions for overseas investors, eliminated red tape and offered new incentives, especially for export-oriented industries. The figures on foreign investment for 1986-87 are net of accumulated losses and other reductions, the government official said.

Most of the new investment registered in 1987 went to the industrial sector, with the metallurgical, mining, chemical, petrochemical and food processing areas leading the way. While Venezuela is interested in debt equity swaps, achievements in this area have been limited up to now.

The superintendent said that the Government is working on a swap worth around $300m that would be applied to a major industrial enterprise. Banking sources said this swap would *cover investment* in a new aluminium smelter.

● Meanwhile, Mr Simon Alberto Consalvi, Minister of Foreign Affairs, said that "conditions are in place" for Venezuela to join the Non-Aligned Group of nations. There are no factors blocking Venezuela's entry, he said, and the only thing required is an initiative by the Venezuelan Government.

Ten blacks die as Natal feuds spread

TEN more blacks have died in heightened feuding in Natal Province, and a leading black newspaper said yesterday that the fighting cast a grim shadow of anarchy over the dream of a post-apartheid South Africa, **Reuter reports from Johannesburg.**

In a statement on political unrest, police reported 10 deaths of blacks in Natal on Saturday, where 75 people were killed in December. The toll was one of the worst since a power struggle erupted a year ago in the black townships of Natal.

Rivalries between the conservative Zulu-based Inkatha movement and South Africa's biggest anti-apartheid group, the United Democratic Front (UDF), lie behind the carnage.

City Press, a Johannesburg newspaper with a wide black readership, said restoring peace in the area was imperative.

Police said five men died on Saturday in clashes between two groups in Mpumuza township, three men were stabbed to death in nearby Deda and a 13-year-old youth and a man died of stab wounds elsewhere in the cluster of poverty-stricken townships near Pietermaritzburg.

Ministry of Light Industry joins war of words, Our Peking Correspondent writes

China's press leads consumer rights battle

CHINA'S state-run media are not known for hard-hitting exposure of the Government.

But, in recent weeks, Chinese journalists have been involved in a running war of words with a government department, accusing the Ministry of Light Industry of cancelling an exhibition planned to expose shoddy consumer goods, because of pressure brought by anxious manufacturers.

Xinhua, the official New China News Agency, said the decision to call off the exhibition at the last minute was a "farce". The Economic Daily attacked the ministry's actions as a "humiliating disgrace" and a "turnabout".

Now, the ministry has replied by taking the highly unusual step of holding a news conference for foreign journalists to defend its decision to call off the exhibition and announce new plans to strengthen consumer protection.

"Our goal in organising this exhibition was to establish a kind of social pressure on manufacturers to let them realise that they should serve consumers and do a good job," said Gong Zho Rong, deputy director of the quality, supervision, and management committee of the Ministry of Light Industry.

"We feel they have now attained this goal. Over the course of four months since the exhibition was first announced, manufocturers have made improvements on repairing the shoddy goods."

The controversy began last

> The controversy began with plans to hold an exhibition of shoddy goods

August when the ministry proposed that a national exhibition of inferior consumer goods be held in mid-December. More than 4,000 letters of complaints with suggestions of what poorly-made goods to include poured in from the public.

But the planned exhibition experienced difficulties when manufacturers reportedly began to protest about their products being shown, and put pressure on organisers. Some factory managers even temporarily stopped *selling their goods* in Peking for fear the city's consumers would find the products inferior and recommend they be included in the exhibition.

The exhibition was then unexpectedly cancelled.

The Chinese media's strident criticism of this decision appears to be part of a general trend of o discussion of consumer rights in China, according to observers.

"In most shops here, the customer is wrong and there is a sense that services need to be improved," one analyst said.

Since the triumph of reform-oriented leaders over more conservative elements at the recent communist party Congress, many Chinese journalists "feel the constraints are not so tight now," the observer noted.

"Consumer rights is a popular issue," he added, noting: "It is also a safe one."

With the media beginning to exercise its muscle, the Ministry of Light Industry has gone on the offensive.

Gong Zho Rong, the exhibition organiser, said the ministry's *main goal after* it had announced the exhibition was to use social pressure through public opinion and newspapers to force manufacturers to pay closer attention to quality control, especially *after-sales service.*

To be included in the exhibition, the ministry stipulated that the shoddy merchandise had to meet several conditions, including letters of complaint from the Peking area and having been repaired and found to be unusable.

From the 4,401 letters the ministry received, several hundred goods met its list of conditions, but many had been repaired, leaving only 66 to be included in

> More appropriate to show a videotape of the inferior goods on TV

the exhibition, according to Gong.

Among these, he said, were such items as refrigerators and bicycles, and manufacturers had been ordered to stop production until they corrected the problems. Washing machines and watches were on the list with less serious flaws.

Officials argued it was not worthwhile displaying such a small number of items in a exhibition centre, but that it was more appropriate to show a videotape *of the shoddy goods on* TV.

The ministry said it was still negotiating with the state-run Chinese Central Television about when to show the videotape. No final decision had been made.

The role of TV is another unusual aspect to this controversy.

After the ministry began to receive letters of complaint earlier this autumn, it stored many defective products in a Peking warehouse, according to the Economic Daily.

Someone in the ministry tipped off the economic section of CCTV, which filmed the goods and showed them on television, thereby alerting the public to the ministry's alleged wrongdoing.

With the ministry now on the defensive, Gong said plans had been made to adopt several other measures to strengthen consumer protection.

It will require manufacturers to send their goods to testing centres where they will be inspected and the results evaluated in a consumers' guide. It will also establish a quality control office which will supervise manufacturers and receive *consumers' letters of complaints.*

Whatever the outcome of this dispute, perhaps it will have some bearing on improving the quality of poorly-made Chinese goods.

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OVERSEAS NEWS

Ramachandran widow asked to run Tamil Nadu

BY K.K. SHARMA IN NEW DELHI

MRS JANAKI RAMACHANDRAN, widow of M.G. Ramachandran, the charismatic film star, who died 10 days ago after a decade as chief minister of the southern Indian state of Tamil Nadu, was yesterday invited by the state governor to form a new government.

Mrs Ramachandran, who has no experience in politics or administration, is expected to be sworn in as chief minister by Thursday. She finds herself at the head of a sharply divided party which owed its strength to her late husband's magnetic appeal for the people of the state because of his career in Tamil-language films. She is also a former film star.

The invitation to form the government came after intense squabbling in the ruling All-India Anna Dravida Munentra Kazagham, which represents a movement to promote Tamil rights. The fierce power struggle that followed Mr Ramchandran's death has split the party and could lead a serious weakening in its position.

Mrs Ramachandran was chosen by the governor after he personally verified the claim that 97 of the 131 party legislators in the 235-member state assembly had supported her at a meeting called to elect the party's leader on Saturday.

The same day, the governor had received a claim from Mr V.R. Nedunchezhiyan, the interim Chief Minister – who had been asked to form the government after Mr Ramachandran's death – that most party members supported him. Mr Nedunchezhiyan has the support of Ms Lalitha, the party's powerful propaganda secretary who was Mr Ramachandran's leading heroine in many of the 130 films he starred in during the days when he was a matinee idol in Tamil Nadu.

With the party now spolit, the new chief minister will depend for her survival on support from members of Mr Rajiv Gandhi's Congress-I party which was an ally of the late Mr Ramchandran. Now Congress-I is not in power in any southern Indian state, its pivotal position in Tamil Nadu gives it an important role and Mr Gandhi's decision on whom to support will be watched closely.

The importance Tamil Nado has been underlines by the fact that the state government has given support and shelter to the Sri Lankan Tamils in their struggle for more autonomy.

Mugabe includes Nkomo in Cabinet

By Michael Holman

MR ROBERT Mugabe, who became Zimbabwe's executive president on December 31, has included the former opposition leader, Mr Joshua Nkomo, in his new 27-member cabinet, consolidating the pre-Christmas merger of the country's two political parties.

Mr Mugabe said the country's new broad-based government would establish a one-party socialist state within three years.

The incorporation of Mr Nkomo's Zapu party into the ruling Zanu (PF) established a de facto one-party state, but the country's constitution still allows for a multi-party system.

Mr Mugabe said he hoped the allocation of posts would encourage armed dissidents in Matabeleland, thought to be former members of Zapu, to "follow the decision of the leadership and come into the fold".

President Mugabe retained his sole white member of the cabinet, Mr Chris Anderson, as minister for public services, and appointed two white deputy ministers for mines and agriculture.

Mr Mugabe said that Mr Nkomo, who will rank third in the party's hierarchy behind Vice-President Simon Muzenda, will be a member of a triumvirate of senior ministers in his office, whose role would include the supervision of local government, and rural and urban development. Mr Nkomo will also be part of a five-member inner cabinet.

Four officials of the former Zapu party are also given government posts. Mr Joseph Msika and Mr John Nkomo become ministers of construction and labour respectively, two other ex-Zapu members are deputy ministers.

Mr Nkomo said: "We are now trying to consolidate national unity by working together". The government hopes the development will end an inter-party rivalry that began in the early 1960s.

In other cabinet changes, the former Home Affairs Minister, Mr Enos Nkala, is given the defence portfolio. The former Foreign Minister, Mr Witness Mangwende, moves to information, exchanging ministries with Mr Nathan Shamuyarira.

Investment in 12 key industries will now be straightforward, writes Mohamad Aftab

Pakistan to cut through its own red tape

PAKISTAN'S government yesterday announced a major attack on its own red tape, which has stifled investment for the past two decades.

Investment in 12 key industries will now be straightforward, and prices of most of their products will not be tied down by price controls, it is claimed.

These latest moves come in the wake of a belated realisation that most investment targets have lagged. The country's sixth five-year plan (1983-1988) will end on June 30.

The moves open new opportunities for foreign private capital investment. Pakistan's manufacturing industry recorded 7.4 per cent growth in 1986-87, slightly lower than in 1985-86, but new investment has remained far below expectation, with some targets met by less than half.

During the whole of the fifth Five-Year Plan, the government permitted new investment totalling $4bn. Permissions for the first four years of the current plan covered investment totalling $3.7bn. Despite this, many investors did not take their schemes further, because of red tape and lack of infrastructure facilities.

The country's central bank, in its annual report for 1986-87, urged the goverment to "deregulate the financial institutions and liberalise the economy in order to ensure orderly and speedy growth."

The moves follow a belated realisation that most investment targets have not been achieved, as the country's sixth five-year plan nears its conclusion

The 12 industries in which start-up by private business will not be hampered by red tape or government permissions include defence-orientated electronics, basic steel, basic metals and alloys, heavy mechanical and heavy-electrical plants, basic chemicals, petro-chemicals, public utilities: ships, aircraft, and locomotives, fertilisers, cement, sugar, and cotton spinning.

Any factory producing these items and not costing more than $28m will require no government permission, nor will units financed by non-repatriable foreign private investment.

The government has already withdrawn controls on investment and pricing of cooking oil, and tractors and motorcycles, as part of its deregulation programme.

Industries which have attracted domestic and foreign private investment in recent years include: petrochemicals, textiles, electrical machinery, mineral products, food, beverages and tobacco, hotel and related services, paper and pulp products, metals,and transport equipment.

In the five years ended in 1986, the UK topped the list of foreign private investors with input totalling $62m. Britain was followed by the US, United Arab Emirates, Saudi Arabia, Kuwait,the Netherlands, Switzerland, Belgium, Denmark, West Germany, Qatar and Japan.

Bilateral issues high on Thatcher's Africa agenda

By MICHAEL HOLMAN

MRS MARGARET Thatcher, the UK Prime Minister, is to leave today for Kenya and Nigeria on what may prove a controversial five-day tour.

It is her first visit to Africa since she attended the Commonwealth conference in Zambia in 1979.

Although she will have a round of engagements in both countries, no news conferences are scheduled, despite the fact that Nigeria in particular pressed for one, offering to limit the meeting to a small group of senior journalists.

The decision has antagonised Nigeria's outspoken and influential press corps, and it is a potential embarrassment to President Ibrahim Babangida, already under fire in some quarters for having invited Mrs Thatcher in the first place.

There are also officials who argue that, if Mrs Thatcher is to visit Nigeria, she should spend more than 28 hours in Africa's most populous nation, which is easily Britain's largest trading partner on the continent. UK exports last year exceed $500m.

South Africa, inevitably a controversial issue, is expected to be high on the agenda for the talks with President Daniel arap Moi and President Babangida. But there are also sensitive bilateral matters which Mrs Thatcher may have to take up.

In the case of Kenya, the largest recipient of British aid in Africa, there is growing concern about the government's treatment of its critics. Last August, Amnesty, the London-based human rights monitoring agency, published a report claiming that more than 75 political opponents had been imprisoned in the past year after "unfair trials". The report also claimed opponents had been "tortured into making false confessions."

For its part, the Kenyan government, which denies the charges and argues that its human rights record is better than that of most African states, has complained to the Foreign Office about the activities of Kenyan exiles in Britain.

The most demanding leg of Mrs Thatcher's visit will undoubtedly come in Nigeria, where she will arrive on Thursday. Angry British traders, frustrated by Nigeria's lengthy delay in settling disputed trade arrears going back to the early 1980s, and critical of the terms of the promissory notes offered, expect the prime minister to take up the problem on their behalf. In particular, they wish her to challenge the Nigerian Central Bank's rejection of the validity of claims for more than $2bn.

Some Nigerian officials may have complaints of their own, arguing that Britain's support for the country's radical economic reform programme has been inadequate.

This view is not shared by some senior members of the government, who acknowledge that Britain's assistance has taken several forms. Nigeria's press, already disposed to be critical, might not be prepared to concede this.

Mrs Thatcher, who will stop in the northern Nigerian city of Kano on the way back to Britain, is to return to London on Friday night.

Maltese Premier starts three-day visit to Libya

BY GODFREY GRIMA IN VALLETTA

DR EDDIE FENECH ADAMI, Malta's pro-western Premier, is to pay Libya an official three-day visit from today as guest of Col Muammer Qadaffi, the Libyan leader.

The move is likely to earn Mr Fenech Adami sharp criticism, particularly from the US, which wants Malta to sever its links with Col Qadaffi's regime. Since toppling the island's Socialist Party from power after 16 years in an election in May, Mr Fenech Adami has consistently promoted stronger economic, commercial and social links with Libya, ignoring the US exertions.

He has accepted Libyan offers of crude oil at 5 per cent less than the official Opec price, is eliminating the need for passports for travel between the two countries, is encouraging further Libyan industrial investments on the island, and hopes to convince Libya to sanction the start of off-shore oil development on the disputed continental shelf between the two countries.

With the island forced by geographical proximity to maintain a working relationship with its North African neighbour, Mr Fench Adami appears determined to extract the best possible contribution from Libya for easing Maltese economic problems.

In exchange Libya wants to woo Malta into closer political affinity. This is difficult. The only accord Mr Fenech Adami will sign in Tripoli next week is an oil purchase agreement. Col Qadaffi will not be invited to visit Malta. According to the rules of protocol, the invitation can only come from the Maltese president. For years now Malta has not had one – only an acting head of state.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Oct.'87	Sept.'87	Aug.'87	Oct.'86
US	14,585	13,999	14,556	16,358
UK	33,240	25,850	25,386	14,732
W. Germany	60,963	57,862	56,059	47,286
Japan	67,549	66,768	65,299	37,228
Belgium	7,972	7,790	7,463	4,614
Netherlands	13,295	12,596	12,519	10,862
Italy	22,408	19,264	16,300	18,131
	Sept.'87	Aug.'87	July'87	Sept.'86
France	27,955	28,615	29,061	30,901

Source: IMF.

Anti-gambling chief wounded in Philippines

GUNMEN wounded the head of a presidential task force and killed two of his guards early yesterday. Elsewhere in the Philippines, assailants killed two candidates for the regional elections due on January 18, and six people died in fighting on Mindanao island, officials said, AP reports from Manila.

Officials said Mr Potenciano Roque, head of the presidential anti-gambling task force, was wounded in the left elbow. Witnesses said he was attacked before dawn at his residence in suburban Antipolo.

The force put a news blackout on the assault.

Whitehall sways against electricity break up

BY MAX WILKINSON, RESOURCES EDITOR

THE CENTRAL Electricity Generating Board appears to be winning its battle in Whitehall to resist being broken up when the £37bn industry is privatised.

Its argument that the Government must preserve most of the CEGB if it wants a credible nuclear power programme has now gained wide acceptance.

However, the Treasury, which has been sceptical about the economic benefit of a large nuclear programme, is still fighting e rearguard action to have the CEGB split up into smaller companies.

Mr Cecil Parkinson, Energy Secretary, has not made up his mind about tha future shape of the industry, but the options to be put to the Cabinet next month or early March are now becoming narrower.

He is said to be confident that he will be able to announce his decision in the early spring. As one official remarked before the Christmas break, however: "We have been very successful in identifying the problems: what we need now is solutions."

The most difficult problem is that the Government's commitment to press ahead with the development of civil nuclear power is now seen to be incompatible with the more extreme free-market solutions which would involve breaking up the industry into many amaller parts.

It is now generally accepted that the case for nuclear power has become strategic rather than economic. It is thought unlikely thet any private company sector would build a nuclear station unless the return on capital were about twice the 7 per cent the CEGB expects from its latest nuclear project at Sizewell, Suffolk, on the east coast of England.

Mr Parkinson has made it clear that he sees the Conservative Party's commitment to nuclear power as equally strong, if not stronger, than the commitment to privatise the electricity industry.

Cecil Parkinson: options narrowing

Mr Parkinson has also been confronted with the fact that last year's report on the four-year inquiry into the Sizewell station said that its safety depended crucially on the expertise of the of the CEGB.

The authorities might, therefore, find it difficult to press ahead with the building of the planned replica station at Hinkley, Somerset, in the west of England, if the Government were simultaneously announcing the break-up of the CEGB.

It is feared that anti-nuclear campaigners might also succeed in raising doubts about the integrity of the safety case for Size well if the project were transferred to new management.

The solution which is now gaining most favour is to keep at least the genersting side of the CEGB together after privatisation, but to frame regulations which would encourage new competitors to build many of the 10 to 12 new power stationa required by the end of the century.

The option of splitting off some of the CEGB's power stations into a "super-Mercury" akin to but bigger than British Telecom's competitor remains on the table, but ministers will be anxious to avoid antagonising power workers' unions which oppose this idea.

The possibility of creating an alliance between militant miners and power workers would be seen as politically disastrous even if unlikely at present.

The key to promoting future competition is generally seen to ba the opening-up of the national transmission grid.

A strong independent regulator would be needed because any private generstor using the grid to send power to a particular customer would lower the efficiency of the grid for all other users. The proper allocation of costs will, therefore, be a contentious and highly technical matter.

On the distribution side of the industry, a consensus has emerged that the present 12 area boards should be combined into four or five separate companies.

Howaver, reorganising them and privatising them all within one Parliament is seen as too difficult. Two other interim solutions have been proposed. The first would be to privatise all 12 separately and allow mergers to take place in the private sector. The second idea, favoured by the Electricity Council, would be to set up a holding company with a limited life for all the boards. After reorganising the structure of distribution the holding company could spin off its subsidiaries and fade away.

Shah plans national paper to rival Star

BY RAYMOND SNODDY

MR EDDIE SHAH, founder of Today, Britain's first colour tabloid newspaper nearly two years' ago, plans to return to national newspapers with the launch of a new daily title this year.

The newspaper, possibly called either The Globe or The Post, will be aimed at The Star at the bottom end of the tabloid market and will be edited by former Star editor Mr Lloyd Turner.

The editorial headquarters of the paper will be in Warrington, north-west England, where Mr Shah's main business, the Messenger Group of free and paid-for weekly newspapers, is based.

Two dummy issues of the newspaper have already been produced and Mr Shah is said to believe they are already better than the first issue of the ill-fated Today.

Today, launched on March 4 1986, was taken over by the Lonrho group three months later and was then sold on to Mr Rupert Murdoch, chairman of News International, for £38m last June. The paper, which has a circulation of about 340,000, is still a heavy loss-maker.

The Messenger Group is planning to invest £1.5m in the venture and it is believed a prospectus is now being finalised in the City of London to raise an additional £4m. The aim is to try to attract individual, rather than institutional, shareholders.

The business plan envisages a low-cost paper with a heavy emphasis on entertainment and television capable of breaking even on a circulation of 200,000.

If the finance is raised the new daily will be launched towards the end of this year. Eighty journalists will be recruited. A total staff of 200 is planned.

Mr Shah, who last year gave up the chairmanship of Today – although he still has a 10 per cent stake in the venture – will try to avoid the mistakes that led Today into trouble almost from the beginning.

It will be produced on the same desktop publishing system already in use in his Warrington weeklies and the paper will be distributed through existing channels – either wholesalers or by Mr Murdoch's road-based distribution system.

The launch of Today was marred by delays caused by inexperience with the new electronic newsroom system.

UK faced with feast of hostile takeover activity

BY OUR FINANCIAL STAFF

LONDON corporate finance experts return from the Christmas holiday today to some $5bn ($9.4bn) worth of contested bids – the greatest amount of hostile takeover activity seen in Britain for many months.

The bids are still in their early stages, but the next fortnight will see them reach significant milestones.

The largest, and the most politically sensitive, is the offer for Britoil, the biggest UK independent oil company, launched by British Petroleum just before Christmas. BP, which has built up a 29.9 per cent stake in its target, is offering 450p a share in cash, valuing Britoil at £2.27bn. It seems likely to issue its formal offer document at the end of this week or next week.

However, the Government has stressed that it will use its "golden share" in Britoil to prevent a change in control.

Atlantic Richfield, the US oil company, is waiting on the sidelines, having built up a stake of over 20 per cent in Britoil.

Also in the oil sector, the £135m cash bid by Elf Aquitaine of France for Tricentrol, the independent UK explorer, will reach the first closing date for acceptances on tomorrow.

The battle so far has centred on Tricentrol's financial position. Elf argues that the company cannot develop its existing assets without a major new loan package which would sharply reduce its asset value far below the 145p offer price.

But Tricentrol has attacked Elf claims as "unsubstantiated" and, with the company's shares standing at 158½p, well above the offer, the stock market clearly thinks the fight has some way to run.

The two contested takeovers within the stores sector – Barker & Dobson's $2bn cash and shares offer for Dee Coporation and Sears' $430m cash-only bid for mail order business, Freemans – are still in their early stages.

The first closing date for Freemans comes tomorrow. After static profits in the first half, Freemans' defence document has warned that pre-Christmas trading was disappointing.

The company's track record is strong and the shares have traded consistently above the 285p offer price.

The bid for Dee Corporation, Britain's third largest grocery group, heads for the first close a week later. The target is expected to post its defence document today.

B&D has a market capitalisation of just £128m and the £1.25bn cash element of the bid is being financed by bank loans, which will then be largely repaid by disposals if the the offer is successful.

Shares in Dee, whose recent interim profits showed a 19 per cent decline, have been trading at around 210p-215p recently, compared with 165p ahead of the bid and the current 222p-a-share value of B&D's bid terms.

The £217m cash offer by Blue Circle Industries, Britain's largest cemant group, for Birmid Qualcast reaches its first closing date tomorrow.

In its defence document last week, the lawnmowers, boilers and cookers group kept most of its powder dry, concentrating on arguments for continued independence.

Rich-poor gap widens

BY ANDREW TAYLOR

THE INCOMES divide separating Britain's richest and poorest families with children has grown considerably in the 1980s, according to a report today from the Independent Family Policy Studies Centre.

It follows last month's government figures showing that the rich have gained a progressively larger share of national income since 1979.

The Family Policy Studies Centre report also indicates that the post-war trend towards greater equality of incomes between the richest and poorest groups has been reversed in the last few years.

It compared the fortunes of families with children in different income groups from 1979, when the Conservatives came to power, to 1985.

Two-child families in the bottom 20 per cent of income earners saw average real income before tax and social security benefits fall 43 per cent in the period while a similar family in the top 20 per cent saw real incomes rise 11 per cent before tax.

A preposterous suggestion, you may say. Quite ludicrous. But before you dismiss it as pure fiction, consider the following facts.

The rate of information growth is doubling every five years. Currently, 6000 new scientific articles are published every week.

An explosion of facts and figures shattering the dreams of anyone hoping to become a Jack-of-all-trades. Indeed, being the master of just one is now a race where the finishing line keeps moving.

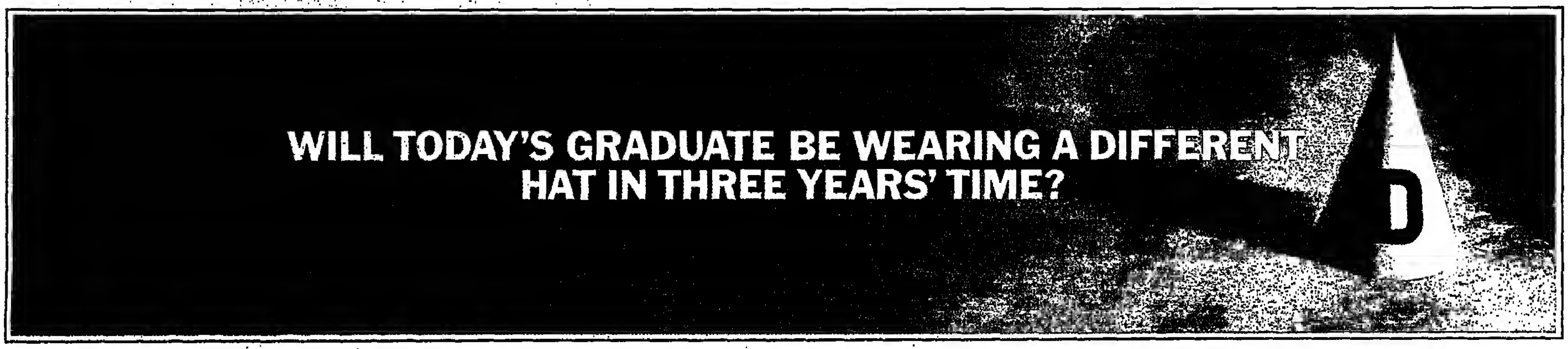
Skills and knowledge that may have taken years to acquire can be out of date almost overnight.

Think of the ship designers in the north-east who have had to turn their hand to designing oil rigs.

The plant breeders who have had their world turned upside down by the advent of genetic engineering.

The textile designers who have had their crayons replaced by computer keys.

Formal qualifications on their C.V.'s, though important, would have given little indication of their capacity to accept and adapt to change.



Of course, if we expect people to have a more flexible, adaptable outlook on work, we must also expect the same of their employers.

So companies must be prepared to do more than just give time off for occasional conferences. They must also allow time off to attend business schools and retraining courses. And maybe more.

Some companies do already. But should we follow the example of countries like Sweden where mid-career breaks of several years are not uncommon? In fact, is it time we reappraised our attitude towards career patterns entirely?

Traditionally, the long serving employee has been held up as the shining example. And, of course, many years of experience in a company can be invaluable.

But in today's fast changing world perhaps we should look more favourably on frequent job changes and regard them as the need to face fresh challenges.

That, in itself, is a challenge that business may soon have to face.

Indeed, in our view, training, or lack of it, is very often at the root of many companies' staffing difficulties.

Yet, sadly some firms still see training as a side issue when compared with, say, providing plant and finance.

According to the latest (1985) MSC figures, the average company spends a mere 0.15% of its turnover on training.

As for ourselves, this year training will cost us some 10% of our income. It's a sizeable sum. But it's one we would not spend unless we knew it would repay us fully in the years to come.

E&W Ernst & Whinney
Accountants, Advisers, Consultants

Continued from Page 1

Lawson inflation pledge

source of great strength, and I mean to keep it that way.

Q. In September you presented a plan for a more formal system of managed exchange rates. Given the political priorities in the US and West Germany's reluctance to give up its freedom in monetary policy, do you still think such an advance is possible? Have you modified your ideas?

A. I will not repeat the very clear exposition I set out in my September speech, although I would urge any of your readers who may be interested in it to read it, since most of the newspaper reports at the time got it wrong. I would only add that what I was advocating was something I described as "managed floating": in the real world flexibility is essential.

Recent events have served only to reinforce my conviction that this is the way ahead. In the space of less than three years, the dollar has lost more than half its value in terms of the other major currencies. A movement of this magnitude over so short a period is not only highly disruptive to trade and industry worldwide, it is also out of all proportion to changes in economic fundamentals over the same period. As for the political obstacles to which you allude, there are always political obstacles in the way of any sensible economic policy. But I believe that in a matter as important as this, it is right to work patiently to overcome them, rather than meekly assuming them to be insuperable. As Paul Volcker put it in a characteristically perceptive speech in Geneva a few weeks ago: "The health and vitality of an open international trading order will be importantly dependent over time upon the willingness of governments of large trading countries to reach some realistic collective judgments about the broadly appropriate level of exchange rates. Those judgments will, in turn, need to influence the design and implementation of domestic policies if they are to be meaningful and durable."

Q. You have said that you do not expect to serve another full term as Chancellor. What are your key policy objectives for the remainder of your time in No. 11 and to what extent do they include a further push on tax reform?

A. It would, I think, be without precedent in modern times to serve two full terms in the demanding job of Chancellor. But for the moment there is work to be done, in weathering the current international financial storm, in fostering international economic co-operation (which, as the G7 communique just before Christmas showed, is still desired on all sides despite the differences that presently exist), and in reinforcing our success over the whole range of domestic policies including, as you suggest, tax reform.

Ashley Ashwood

Nigel Lawson: economy set to grow at a "satisfactory pace"

Q. Unemployment fell sharply last year despite buoyant earnings. Do you still see a strong link between pay and jobs? How soon will you be able to get the underlying inflation rate down from the about 4 per cent seen since 1983?

A. Unemployment has come down because of the strong growth in the economy, helped by the Government's employment and training measures. I have no doubt that it would have come down lower and sooner if British employers had awarded pay rises closer to those of their main overseas competitors.

I am determined to bring about a further gradual reduction in inflation over the medium term, but we have never set a precise timetable for achieving our inflation objectives and I do not propose to start now. It is, however, worth recalling that inflation has stayed steady since 1983 despite the necessary once-for-all depreciation of sterling following the oil price collapse and despite a period of unprecedented real growth in the economy. This is a far better performance than we have ever known before, and fully demonstrates the effectiveness of our policy against inflation.

Q. You said last year that you would conduct a review of the privatisation programme. How far is this focusing on increasing the scope for competition in newly privatised industries, particularly with regard to electricity?

A. The Government has announced an ambitious programme for this parliament, including steel, water and electricity. Steel, of course, is a highly competitive industry, on a world basis. We are currently looking at a number of options for the structure of the electricity industry after privatisation, and are looking specifically at how best to introduce competition where that is possible. Clearly there cannot be competition in the full sense when it comes to water supply and sewerage, but this merely means that it is essential to put in place a proper regulatory system.

Q. The Institute for Fiscal Studies has highlighted the severe anomalies (marginal tax rates of over 100 per cent for people on low incomes) resulting from the interaction of tax and social security payments. Is this an area where we can expect reform?

A. This has, in effect, already been done. The social security reforms to be implemented this April, by assessing social security benefits on net rather than gross income, will eliminate altogether the marginal "tax" rates of over 100 per cent which at present result from the interaction of tax and social security.

Newsnight slot poses difficulties for BBC

By Raymond Snoddy

THE BBC is facing a series of difficult scheduling decisions in the wake of the row over a fixed starting time for Newsnight, the daily current affairs programme.

Mr Michael Checkland, BBC director general, unexpectedly announced last Wednesday that, from September, the programme would have a fixed start at 10.30pm.

It would be up to schedule planners to find creative ways of dealing with difficulties caused.

There are now at least three outstanding issues to be decided that could cause renewed tensions between the news and current affairs directorate, led by Mr John Birt, and television service executives.

They are:

- Whether the Nine O'Clock News on BBC1 should be extended.
- How to schedule three specialist current affairs programmes planned for BBC2, covering financial and economic matters, social affairs and politics.
- What input BBC Television Centre management should make to programmes produced by the news and current affairs directorate.

Mr Checkland has repeatedly said the schedules of BBC1 and BBC2 are organised by the channel controllers and the managing director of television, except when he personally intervenes.

Meanwhile Mr Checkland has publicly apologised to Mr Bill Cotton, managing director of BBC network television, who was not informed in advance of the Newsnight decision.

Mr Checkland announced Newsnight's fixed time at a press conference to launch See For Yourself, a two-hour "behind the scenes" report on the corporation which was broadcast on BBC1 last night.

The decision regarding Newsnight had been finalised just before the press conference, even though television executives were still working on a report that would have pointed out potential difficulties.

Mr Cotton heard at the same time as the press that discussions on the issue were over. He left immediately afterwards, without staying for a buffet lunch.

The decision has created a headache for schedule planners. Because of the 9pm watershed dividing programmes suitable for young people from those which might not be, it will be difficult to show serious films on BBC2 on week nights.

Short fillers may also have to be introduced, even though these often cause viewers to switch channel.

A commercial television executive yesterday described the BBC decision as "a gift."

He said: "I can't believe it. It's absolutely barmy."

Direct payments plea for universities and students

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

THE GOVERNMENT should scrap its plans to increase its control over the universities, says Professor Elie Kedourie, of the London School of Economics, in a pamphlet published today by the Centre for Policy Studies.

He claims that existing controls have served only to divert universities from their proper purposes — "to educate the young, to preserve and transmit traditions of learning and civility and to promote the increase of knowledge".

Tightening the rein still more would push them farther in the wrong direction.

Prof Kedourie, who is Professor of Politics at LSE, says ministers should instead adopt different ways of financing universities which would in effect free them from state planning and control.

One change would be for the Government to stop funding them largely by payments made straight to the institutions and to hand most of the funds to students.

The students would then provide the bulk of the universities' income by paying much larger fees.

"Instead of the state taking the taxpayer's money with one hand and dishing it out in grants and scholarships with the other, let the money be directly spent by those on whose behalf it is now expended," Prof Kedourie adds.

The second of his proposed changes is the introduction of student loans, which would have "the great advantage of diversifying the income of universities, and of making them alert and, directly responsive to the needs of those whom they educate...."

Another change would be to give parents tax allowances on money spent on the university education of their children.

Although such allowances would not help families with incomes too low to take advantage of them, "it cannot be beyond the wit of fiscal experts to make suitable provision for the hard cases."

The professor also says that, in addition to offering full tax relief on private donations to universities, the state should directly provide them with the capital they need to maintain and improve their buildings and facilities.

"The Government now spends annually very considerable sums in direct grants to universities.

"How then if a capital sum representing the present discounted value of, say, 10 or 15 years' subventions were to be given to each university which would be told that henceforth, given such a handsome dowry (or better, alimony), it would have to fend for itself?"

Diamonds into Glass. Centre for Policy Studies, 8 Wilfred Street, London SW1E 6PL. £3.90.

Cavendish memoirs to be raised in Commons

By Michael Cassell, Political Correspondent

THE GOVERNMENT'S latest attempts to prevent former members of the security services from disclosing information about their activities are to be raised in the Commons when the House returns next week.

At the weekend, the High Court modified a blanket ban imposed last week on The Observer newspaper, preventing it from publishing details from the memoirs of Mr Anthony Cavendish, a former MI6 officer. The newspaper is now barred only from printing information directly concerning Mr Cavendish's experiences in the security and intelligence services.

On the same day, the High Court extended the injunction to The Sunday Times, although it was given permission to republish any material from the book it had previously printed.

Yesterday, the newspaper repeated some information it had previously published from the Cavendish book, Inside Intelligence. The account includes involvement in espionage activities in the 1950s and MI6 training in clandestine, occasionally illegal, intelligence work.

Mr Tam Dalyell, Labour MP for Linlithgow, has persistently criticised the Government's handling of the security services. He plans to ask the Prime Minister why she did not refer the Cavendish book to the D-Notice Committee, which vets publication of sensitive information, or to Sir Philip Woodfield, newly appointed counsellor to security service personnel.

Mr Dalyell claimed the Government was abusing the injunction system in an attempt to "scare off" the press.

Justinian, Page 8

Parts of NHS 'may fall apart'

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE DANGER exists that some parts of the National Health Service will "simply fall apart during 1988" because of financial difficulties, the Association of Community Health Councils warns today.

A survey by the association shows many health authorities in England and Wales facing budget deficits in the current financial year. The association says the extra £101m pledged by the Government last month to help solve immediate problems will, at best, cover only half the spending gaps faced by authorities.

"Community health councils are increasingly expressing grave concern and anxiety about the financing of hospital and community health services," says the report.

"The picture for the present year for many health authorities is one of crisis for their budgets and as a result there must be gloom about the prospect for services and the maintenance of patient care."

Community health councils are statutory bodies responsible for representing patients' interests to health authorities.

They have rights of consultation over changes in health provision in their areas.

But one of the association's concerns is that in the recent atmosphere of crisis, that process often fails to be observed, and health authorities have reduced services without adequate consultation.

"Some of these measures are ostensibly temporary, but with the prospect of no real room for manoeuvre in the coming year, many of the closures may *de facto* be permanent," says the report.

"Moreover, many community health councils feel that health authorities are making use of creative accountancy devices that are merely temporarily hiding the underlying financial problems."

The association expresses concern at government suggestions that health authorities should be able to release around £150m through further cost improvements and efficiency programmes in the coming year. "Many councils now take the view that the scope for further such savings is at an end without a serious impact being felt on patient services."

By far the most common cause of health authorities' financial problems shown in the association's survey is the Government's failure to meet the full cost of nationally determined pay awards, leaving health authorities to make up the difference from their own funds.

Other frequent problems are overspending on agency staff budgets and failure to achieve efficiency savings.

BAA urges more support for quieter jets

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE GOVERNMENT should give greater encouragement to airlines to buy and fly quieter jets, according to BAA (formerly the British Airports Authority), and several independent operators and other organisations.

Those bodies have made this point strongly in their comments on Department of Transport plans for new night jet noise restrictions at Heathrow and Gatwick airports to become effective next spring.

The DoT's plans were outlined recently in two consultation papers.

Responses from airlines and other interested parties submitted by the December 23 deadline are being studied and final decisions will be announced in February, for implementation from April 1.

Broadly, BAA supports the overall government approach of giving preferential treatment in its proposals to the quieter types of jets, but believes they could go much further. It also believes there should be tougher curbs on older, noisier jets.

The quieter types of jet — now classified as Night Noise Group-C (NN/C) — include Boeing 737-300s, 757s, 767s, British Aerospace 146s, Airbus A-310-200s and probably also the new A-320s.

The DoT proposals are for the number of Heathrow summer night jet flights to be cut from 3,650 to 2,750 and the winter quota cut from 3,150 to 3,000, with the new quotas being frozen for five years.

At Gatwick, two plans are suggested for discussion. One is to freeze current annual quotas of 4,300 night flights for the summer and 1,950 for the winter, also for five years.

The other plan, more controversial, is to halve over the next five years the permitted number of flights by older, noisier jets while increasing the number of flights by quieter jets.

The net effect of that would be a rise over five years in the total number of night flights at Gatwick, from 4,300 to 5,190 in the summer and from 1,950 to 2,357 in the winter.

The BAA argues that that would reduce noise, both at night and during the day.

"However, the government proposals do not go far enough to encourage the quieter aircraft, and further moves should be taken to give maximum incentive to airlines to operate NN/C aircraft," says the BAA.

At Gatwick, that would mean reducing the proposed quotas for the noisier aircraft and increasing the quotas for the quieter ones.

At Heathrow, a separate quota should be given for the quieter aircraft.

Britannia Airways, the second largest airline in the UK, has expressed its disappointment that the proposed DoT changes do not go further.

Britannia argues that the new plans will allow less than one additional night take-off or landing at Gatwick this year "and it will be 1992 before there would be an average of no more than four more flights per night than are currently permitted".

The Gatwick Area Conservation Campaign, which represents environmentalist groups, says in its own submission to the DoT that it welcomes signs that the Government is "at last beginning to develop an overall environmental policy."

Timetable for BA-BCal merger expected soon

BY OUR AEROSPACE CORRESPONDENT

A DETAILED timetable for implementing the merger between British Airways and British Caledonian Airways is expected to be issued soon, possibly this week.

It will set out precisely how the former second-force airline will be totally integrated into BA, including where the expected 2,000 redundancies resulting from merger will fall.

Most BCal shareholders have accepted BA's £250m offer. The rest have until next Friday to respond.

They can choose from the £12.15-a-share cash offer, the loan-note alternative or the share offer which swaps 115 BA shares for 22 BCal shares.

Today the special implementation group set up by BA under Mr Peter Owen, operations director, comprising 17 top BA executives, meets at Gatwick to decide on a co-ordinated programme of action to weld BCal into BA by April 1, the summer season's start.

The programme will cover personnel, aircraft and routes, and reach into every aspect of the two airlines' operations.

The redundancies issue is likely to be given priority, to remove as much uncertainty as possible.

BA has said the 2,000 involved, spread through both airlines, will be treated sympathetically and understandingly, with as much natural wastage and early retirement as possible.

Sir Colin Marshall, BA chief executive, looking even further ahead, says to all staff in a New Year message that the task of integrating the merger will be as challenging as BA's flotation.

He says: "The larger BA will be an even more dynamic and faster-growing company with a future of great promise. Our horizons have been greatly extended. The pace of the race is hotting up and we are out there with the leaders.

"To our competitors, I have this message, and I offer no apologies if it sounds familiar — 'You ain't seen nothing yet!'"

Wool industry confident on 1987 export levels

BY ALICE RAWSTHORN

THE BRITISH wool textile industry is confident that 1987 will have been one of its best years for exports, in spite of the fall in the dollar and the recent rise in the price of raw wool.

Exports of British wool rose steadily in the first three quarters of the year. But the industry's hopes of achieving record exports were dented in October when overseas sales fell compared with the previous year.

Until that month, exports had increased by about 20 per cent a month. Yet in October the industry's difficulties — the price increase for raw materials and the impact of the fall in the dollar on the currencies of its low-cost competitors in the Far East — came to a head.

The raw wool sector has borne the brunt of the fall; overseas sales of both cloth and yarn increased in October. Nevertheless, that suggests that the industry may not beat its record year of 1985 when exports rose to £607m. In 1986, sales abroad slipped to £556m.

The wool textile industry has experienced a remarkable recovery since the early 1980s when hundreds of mills closed in Yorkshire and Scotland. Yet wool textile manufacturers are not yet sufficiently confident to invest in new capacity. Many had hoped that buoyant exports would encourage investment.

Mr Alistair Henderson, deputy chairman of *Patons & Baldwins* (part of the Coats Viyella group) and president of the Confederation of British Wool Textiles, said the industry must invest in capacity and machinery in order to remain competitive and to prevent an increase in imports into the domestic market.

The wool textile industry must plan for the mid-1990s in terms of production and manpower, he said.

Welsh house prices rise

BY ANDREW TAYLOR

HOUSE PRICES in Wales rose by 7.2 per cent last year compared with a 13.2 per cent increase in the UK as a whole, Principality, the largest Welsh building society says.

The society estimates that the average price of a house in Wales is now £29,818, for which a typical borrower would require a mortgage of £22,075.

Mr John Mitchell, the society's chief executive, expects differentials between Wales and the rest of the UK to narrow this year.

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Demand curbs urged to avert overheating

BY SIMON HOLBERTON AND RALPH ATKINS

THE CHANCELLOR might face a difficult policy environment this year if he does not move to cut the rate of expansion in domestic demand, says Goldman Sachs, the US securities house, in a paper published today.

Its review of the economy coincides with Lloyds Bank Economic Bulletin. That says the stock market crash in October may boost, not cut, economic growth.

The bank says falling share prices will have only a small impact on consumption while recent cuts in interest rates will stimulate spending and investment. However, it adds that growth will still be slower than last year.

Lloyds estimates the direct effect of the stock market fall on consumption may reach a peak early next year, cutting spending by 0.14 per cent compared with pre-crash projections.

The bank calculates that the 1½ per cent cut in bank base rates since the crash began might raise consumption by 0.2 per cent and investment by 0.7 per cent.

Goldman Sachs says the strength of the UK economy suggests that overheating might become a big obstacle this year even though such fears were misplaced last year. Overheating may emerge as growth in productivity moderates and industry nudges full capacity.

It says the last half saw the economy grow at an annualised rate of between 5 per cent and 7 per cent while monetary policy was eased to cope with the effects of the collapse in share prices on October 19.

It believes that against this background the Chancellor will have to tighten monetary policy and adopt a cautious fiscal stance this year if he is to avert serious balance-of-payments difficulties.

"The only question is how soon the slowdown occurs and how painful it is when it happens," Goldman Sachs says.

It warns of false dawns that might appear early this year. Retail price inflation will be on a downward trend early in the year, as the effects of mortgage interest-rate cuts feed through into the Retail Price Index, but it says the underlying trend of inflation will rise to about 5 per cent or more.

The trade outlook will also appear to improve. Early this year the current and trade accounts might show signs of improvement.

The current strength of sterling will affect imports first, leading to lower prices, but its lagged impact on export volumes will begin to bite in this second half.

The tendency for import consumption to outpace export sales last year, largely because the UK is growing faster than Western Europe and North America, is likely to be exacerbated.

Goldman Sachs says the current momentum in the economy is such that the 1988 calendar year average growth rate could again reach 3.5 per cent to 4 per cent for the non-oil economy.

It says growth needs to fall well below 2 per cent by next year if the dangerous balance-of-payments deterioration is to be halted.

London fails to win back US tourists

By Christopher Parkes

LONDON FAILED again last year to attract back US tourists who shunned the British capital in 1986 because of fears of Libyan terrorists and fallout from the Chernobyl nuclear power station explosion.

Officials this time blamed the relative weakness of the dollar.

An influx from the Continent pushed the total number of visitors up to 8.9m, just short of the 9.1m peak recorded in 1985, but the proportion coming from North America was only 22 per cent, compared with 34 per cent in 1985.

However, according to figures from the London Tourist Board, tourist spending in London reached a record £3.56bn, compared a previous record of £3.23bn.

Western Europeans represented 52 per cent of all overseas visitors.

They tended to be younger than long-haul travellers, and estimates just published show that the proportion of tourists staying in licensed hotels fell to 33 per cent last year, compared with 40 per cent in 1985.

An increase in numbers staying with friends and relatives reflected the nationality and age breakdown of last year's holidaymakers, the board said.

The fall in US visitors also registered in the board's annual poll of the most popular evening activities.

The proportion of tourists favouring the theatre fell to 49 per cent compared with 57 per cent in 1985.

"Just walking around" was the most popular evening pastime with 54 per cent, while 66 per cent headed for the pub.

Hotels were considered expensive by 42 per cent of the visitors questioned, and 56 per cent considered the cost of eating out either cheap or moderate.

● Health-conscious British hoteliers have been rewarded for their enterprise with a new heart symbol alongside their listings in the 1988 edition of Ashley Courtney's Let's Halt Awhile hotel guide.

The symbol appears on 128 entries describing hotels which offer low-fat, low-cholesterol and low-calorie meals on their menus.

Among the hotels offering healthy meals, 74 per cent banned smoking in the dining room or confined smokers to special areas.

More than a third controlled smoking in the bar, and almost two thirds offered keep-fit facilities.

Aberdeen seeks its prosperity abroad

After the collapse of the oil price, offshore support industries had to diversify to survive. James Buxton reports

The Aberdeen support fleet in better days. Recovery has not meant return to pre-collapse activity levels.

MR JIMMY MILNE recalls bitterly the period more than a year ago when Aberdeen's 15 years of expansion were brought to an end in a matter of months by the oil price collapse.

Now, however, the 46-year-old Mr Milne, who runs the Balmoral Group, a private company specialising in polymer buoyancy products, enthuses about export contracts as he dashes up the ladder to the Portakabin where he has his office. "We're selling anchor pennant buoys to South Korea, subsurface buoys for the Gulf of Mexico - great brutes, we put them on a 747 - and buoys for a pipeline in Turkey. We've got an order from the Falklands.

"Exports will make up half our turnover of £5m or £6m this year, against 10 per cent three years ago. No ifs and buts about it - the North Sea downturn has driven us to expand our exports."

Aberdeen's offshore industry is showing a fresh attention to exports - long overdue, some critics say - as it begins to recover from the shock it suffered when, early in 1986, the oil price collapsed and oil companies drastically cut their spending.

An upturn began in last May, as the oil price stabilised at about $18 a barrel, and oil companies took advantage of the very low going rates to resume drilling. Whereas early last year there were nearly a dozen drilling rigs lying idle off Aberdeen, a few days ago there was only one.

Sentiment has been encouraged by a number of discoveries and by some recent oil company decisions to develop new fields - including a £2bn programme by BP to develop the Miller and Bruce fields. But those projects will take several years to produce orders.

Mr Charles Wood, who follows the offshore industry for the Scottish Development Agency in Aberdeen, said: "The volume of activity has gone up in the past six months. But not surprisingly, the prices paid for services have not picked up as smartly. There's no suggestion that boom times are here again. The situation for companies in the offshore industry is still fluid - it's still evolving."

Since he spoke, the sharp drop in the oil price on the spot market has reminded Aberdeen how volatile oil prices still are.

Mr Ian Wood, chairman and managing director of the John Wood Group, the largest locally-owned offshore services concern in Aberdeen, says: "Recovery means a recovery of confidence. It does not mean a recovery to the levels of 1985."

The collapse of the oil price is reckoned to have cut oil-related employment in Grampian Region of which Aberdeen is the capital - by about 11,000, from 52,000 to 41,000. The job losses temporarily pushed Aberdeen's own unemployment rate up to almost 10 per cent, although it is now back about 7 per cent and the city still has greater prosperity than any other in Scotland.

The shake-out affected companies across the board - from the supply boats to the companies providing divers and underwater services. Businessmen in Aberdeen say it purged away the overcapacity built up in the years of plenty.

The John Wood Group saw its sales drop from £90m in 1985 to about £70m in 1986, and it had to reduce its staff from 2,400 to 2,000, and its 25 operating companies down to 10.

Very few companies failed completely. One recent example is Webco, a family-owned company making anti-corrosion coatings, which recently went into receivership, partly as a result of an acquisition outside the oil industry.

"What's been left from the failures has been picked up by others," says Mr Harry Tocher, an assistant general manager with the Bank of Scotland in Aberdeen. Several other companies have merged.

Some leading Aberdonians believe the rationalisation has not gone far enough. Mr Keith Mair, the local director of Investors in Industry (3i), says: "I've told my customers to think of mergers."

"One of the weaknesses of the UK services industry," he says, "is that it hasn't merged and concentrated as much as it should." The US oil services industry has seen some very big mergers in the past two years but in Scotland the predominantly family-ownership structure has kept companies independent. Mr Tocher believes this winter might be hard for some companies.

Helicopter operating companies have recently rationalised through the takeover of British Caledonian Helicopters by Bristow.

Observers beleive, however, that there are still too many companies in the troubled underwater engineering sector, where a rescue presided over by Sir Ian MacGregor, the former National Coal Board chairman, was recently launched for British Underwater Engineering. The supply-boat industry still has serious overcapacity.

Mr Wood sees the downturn in the North Sea, combined with what he calls the "utter disarray" of companies in the US oilfield services industry, as a chance for Britain, and in particular Scotland, to lay claim to part of the world offshore supply market.

That, he says, could be worth £75bn a year by the mid-1990s of which a third could be open to companies from outside countries. "Britain ought to be able to get 10 per cent of that one third - i.e. £2.5bn worth - not just in hardware but in sub-sea know-how and down-hole technology," he says.

Over the past two years the Wood Group has acquired in the US all three of the world's independent manufacturers and operators of wireline equipment - electronic devices for monitoring or logging oil and gas wells. The sector is dominated by big companies such as the US-French group Schlumberger, but the independents enjoy market opportunities in countries such as India and the Soviet Union.

The Scottish Development Agency is trying to help Scottish companies to develop overseas markets: it helped the Balmoral Group set up an office in Houston to tap the US market. It is promoting Scottish-based offshore companies in Latin America (particularly Brazil) and the Soviet Union, where last May it held a conference and exhibition on Scottish gas technology.

One Aberdeen company that has recently won Soviet orders is Gas Services, selling equipment for recycling the costly helium gas breathed by divers.

Gas Services is part of Pressure Products, a British company founded by Mr Don Rodocker, an American. The 1986 recession found the company cash-rich and its financial resources were further boosted by the sale of half of a 50 per cent interest to the US group Air Products. All that money is being invested in diversification.

Mr Martin Briant-Evans, an executive with the company, says: "Companies in north-east Scotland - including US-owned ones - are far superior to concerns in the US in many areas of offshore technology. I believe we should create an infrastructure here in north-east Scotland that can be exported all over the world."

Virtually all Pressure Products' turnover in 1987, which amounts to about £2.5m, came from overseas markets. In 1988 it expects a big jump in turnover as its new subsidiaries step up sales. It is "the kind of company that gives you hope," says Mr Mair of 3i.

Japanese agree deal to build Lancashire plant

BY RAYMOND SNODDY

AN INFORMATION exchange agreement between the Sanwa Bank of Japan and Inward, the north-west England promotion agency, has had its first success.

A deal has been reached to build what is believed to be the first Japanese manufacturing plant in Lancashire.

Euro Technology Industries, a joint venture between three companies, Edward W. Andrew of Bury and Hoshiko Sangyo and Nitto Kogyo of Tokyo, plans to create 117 jobs in a purpose-built £3m factory.

ETI plans to make components for photocopiers and other business machines.

The Trade and Industry Department has given grants of £400,000 to the project, which will be based at Clayton-le-Moors, near Accrington.

Mr Basil Jeuda, managing director of Inward, said he hoped the joint venture would be the first of many arising from the relationship with Sanwa Bank.

It is believed that Inward is at an advanced state of negotiations with another Japanese company considering locations in the north-west.

Change of name for W. H. Smith

Financial Times Reporter

W. H. SMITH & Son (Holdings), parent of the diversified retailing and distribution business, has changed its name to W. H. Smith Group from January 1.

Its high street newsagents and variety store chain, W. H. Smith & Son, will in future be known as W. H. Smith.

The company said it had introduced the new holding company name, together with a new group logo, to help to distinguish the parent from the high street business.

Its other UK interests include Do It All in do-it-yourself retailing, Our Price in music, Paperchase, W. H. Smith Travel, and bookseller Sherratt & Hughes.

The group is also heavily involved in the distribution of printed mattor through its wholesaling businesses, and in television services.

Scientific R&D 'cuts concealed'

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

Gordon Brown: paper from anonymous source

MR GORDON BROWN, Labour frontbench Treasury spokesman, is demanding a government explanation for what he says is a deliberate cover-up of new spending cuts in scientific research and development programmes.

His accusations follow the anonymous posting to him of a classified government document which, he says, orders the cover-up.

The document, a memorandum, is based on a ministerial decision recently sent to civil servants.

He says it tells officials not to encourage companies to seek state aid and orders them to be more critical of applications already received.

Further, it says any application involving more than £50,000 will have to go to Mr Kenneth Clarke, Chancellor of the Duchy of Lancaster, for approval.

It says: "Ministers have decided that, as part of their continuing review of Department of Trade and Industry support, they want a more critical view to be taken by officials of any possible support for single-company research and development."

It emphasises that ministers do not see tha requirements as marking any change in policy and that departmental officials must not suggest otherwise.

Mr Brown, who has written to Mr Nigel Lawson, Chancellor, and Lord Young, Trade and Industry Secretary, said the Government was already spending less on high-technology research and development than in 1979.

He said ministers were seeking further cuts in the £80m-a-year allocation without informing Parliament and without telling anyone the rules for providing financial aid were being changed.

He said: "It appears there are now two kinds of government cuts, those publicly announced and those deliberately concealed.

"I fear that in other areas of economic and industrial policy, including support for the regions, cut-backs are being imposed without the full truth being told to the public."

Perth offices win Riba award

BY ANDREW TAYLOR

THE WORLD headquarters of General Accident Fire and Life Assurance at Pitheavlis, Perth, a new main entrance for Belfast's Zoological Gardens and a sheltered housing project in Birmingham are among nine developments that have received 1987 architectural awards for merit from the Royal Institute of British Architects.

The Institute said the General Accident building, designed by James Parr and Partners and built by Sir Robert McAlpine, was sympathetic to its country location. It had the appearance of series of hanging gardens, providing 25,000 sq metres of offices set into a hillside overlooking Perth.

The main entrance of the Belfast Zoological Gardens, designed by McAdam Design and built by Mivan Construction for Belfast City Council, had cleverly introduced the new elements of the zoo offices, pay boxes and shops to provide a "protected intimate space, rich in incident and changes of level."

A two-storey sheltered housing scheme for the city of Birmingham, designed by W.G. Reed and built by George Stubbings was "a model of skilful design for elderly."

The six other schemes to receive institute awards were:

● The redevelopment of the Corn Market and Market Cross at Penrith by Lowther Construction for Eden Distict Council.

● An office development for Babergh District Council, Ipswich, designed by Arup Associates and built by Sindalls Construction.

● A shopping centre built at The Lanes, Lowther Street, in one of the historic areas of Carlisle, designed by Building Design Partnership and built by John Laing.

● Maidstone District General Hospital, designed by Powell Moya and Partners and built by John Mowlem.

● Lemsford Mill, a conservation and small-scale industrial development at Welwyn Garden City for Lemsford Mill Controls, which manufactures electro-magnetic control equipment. Aldington Craig & Collinge were the designers and the contractors were H.J. & A. Wright.

● A high-tech speculative office development at 1 Finsbury Avenue in the City. The building, for Rosehaugh Greycoat Estates, was designed by Arup Associates and built by Laing (Management) Contracting. The Institute said it was impressed "by the sheer professionalism displayed in the design of the building."

In addition to the nine awards, the institute also commended 18 other schemes. The awards were for buildings completed between 1980 and 1984. Mr Rod Hackney, the Institute's president, said the purpose was "to give recognition to outstanding examples of current architecture" thereby achieving public appreciation of good architectural design.

MANAGEMENT

Licensing

An entree to difficult markets

Peter Montagnon on the Lee Cooper jeans group's use of this method of exporting

SOME TIME over the next six months the Yemen Garment Factory in Sana'a, North Yemen, will start producing Lee Cooper jeans.

Its output will not be large — 200,000 units a year at most — but it will be the only jeans producer in this remote and backward country. For Michael Cooper, managing director of Licensing Services International (LSI), which negotiated the production licence, the start-up will provide vindication of a long-held belief that licensing offers exporters a practical way of spreading their business into otherwise difficult markets.

Licensing is not nearly as popular with British companies as it is with their counterparts in the US. Using the experience of his own company, Cooper argues that many overlook its business potential, both in state-run Communist countries, and in the debt-ridden developing world.

LSI is a subsidiary of Vivat Holdings, the umbrella company for the Lee Cooper group. With a staff of just 16 in a third-floor Baker Street office, it controls licences for the production of over 5m garments a year in more than 20 countries around the world.

Now it is in the process of branching out to service more than just its parent company. It has taken on other licensing rights, including those for Aston Martin, Lonsdale sportswear, and Puffa, which manufactures upmarket thermally-quilted outer garments.

Licensing is a natural choice for a clothing manufacturer because it offers a way of penetrating new markets that avoids the maze of import restrictions that dominate world trade in garments and textiles. Cooper, who is also president of the UK Licensing Executives Society, argues that it is also a useful marketing tool for other consumer, and even industrial goods producers.

Admittedly there are pitfalls. Payment risks can be considerable. It is sometimes difficult to ensure adequate quality control. In some parts of the world it is hard to secure patent and trade-mark protection. And there is always the danger that the licensee will eventually emerge as a major competitor, swamping the original owner of the brand or technology that has been licensed.

"Given perfect circumstances," says Michael Hughes, LSI finance director, "one would have to say that direct selling is more profitable, but we don't live in a perfect world."

LSI believes that licensing helps exporters establish a bridgehead in developing countries that lack the foreign exchange to pay for imports. Exporting to Comecon countries, meanwhile, can be a nerve-wracking business because volumes, particularly of consumer goods, are subject to artificial and capricious state control. "Licensing is a better way to establish a long-term trading relationship than direct product exports, which are always vulnerable to currency and political turmoil," says Cooper.

Moreover, it is cheaper than direct investment in production facilities abroad. Companies which make such an investment in developing countries may run the risk of expropriation in a volatile political climate. More commonly they also may face difficulties with the repatriation of earnings if the host country is *short of foreign exchange*.

Against this has to be set the fact that the proceeds of licensing are relatively low, at least *in gross terms*. LSI recently signed a new licensing agreement with Odevne Zavody KPT Nalepky of Czechoslovakia which will double to 2m a year the number of Lee Cooper garments produced in that country. The deal is expected to yield only £8m in royalties over its nine-year life. But the Czech partner, not LSI, is responsible for capital investment. LSI's revenue only has to cover its administrative costs so the profit margin is higher than initially appears.

Cooper says that LSI normally expects to insure its royalty payments, either with the Export Credits Guarantee Department or, in cases where such cover is not available, with the private sector insurance market.

LSI has a distinctly hands-on approach to relations with its licensees which have to meet high initial selection criteria. *This enables it to police its* agreements to ensure that quality control is maintained and that the licensee respects *the strict geographic limits on* his license.

But it also helps develop a continuing relationship with the licensee which is kept up-to-date with new technology and products as they are introduced. Cooper argues that the mutual interest of the two sides in developing the business also helps ensure local respect for patent and trade-marks. The licensor as well as LSI itself has an interest in fighting counterfeit as it gains exclusive right to the trade-mark in its home market.

Nonetheless, Mr Cooper admits that trade-mark and patent protection is a problem. He says he is pessimistic about the chances that current international discussions in the General Agreement on Tariffs and Trade (Gatt) will do much to improve the situation because there is still too little political will for international cooperation. In Far Eastern countries where state enforcement of laws on intellectual property rights is particularly weak LSI employs special investigators to monitor abuse.

LSI is now about to spread its licensing crusade into Latin America, a market that most UK exporters regard as particularly difficult, and one they have tended to shun since the onset of the debt crisis in 1982. It expects shortly to sign a Lee Cooper licensing arrangement with a Venezuelan company which will start production at 100,000 garments, rising to 5m annually within the next five years.

Not only will the Lee Cooper name be competing with well-established local and US jeans producers in Latin America, it is also entering a part of the world where host governments are often particularly suspicious of licensing arrangements.

As in many other developing countries Latin American governments tend to encourage direct foreign investment rather than licensing because investment brings in an inflow of badly-needed foreign exchange. Cooper argues that a licensing arrangement can, however, help the host country achieve a high degree of import substitution. This was an argument that swayed the North Yemeni government.

For a relatively small outlay in royalty fees, the host government is acquiring technology and know-how "that will reside in their country for good." That is in essence LSI's main selling point. As Cooper puts it: "We are able to provide a proper consultancy service to our licensees in all aspects of the business. The licencee's business is our business."

Lee Cooper licensing extends from jeans to Aston Martin watches

AEG

Widening the long-term perspectives

Heinz Duerr explains to Andrew Fisher the West German group's post-recovery strategy

WHEN Heinz Duerr became the ninth post-war chairman of AEG, the West German electrical and electronics company, one of the first things he did was to change the shape of the boardroom table.

It used to be U-shaped, but that did not suit the plain-talking Duerr, a strong believer in management through communication. He says he disliked the way directors talked at each other across an empty space, tending to defend their own areas of activity rather than consider the needs of the group as a whole.

"Now," says 54-year old Duerr, "any problems remain on the table and don't just fall through into the gap. They stay there and fester until they are dealt with." In a group with such a wide range of products as AEG — from industrial electronics, software and cables to washing machines, cookers and hair dryers — openness between the divisions is vital, he feels.

With some 50 sites in Germany, Frankfurt-based AEG is a highly complex research and manufacturing group and the job of co-ordination is a tough one. "You can try to do it by laying down guidelines," he adds. "But I think it can only be done properly through the personal approach."

Duerr, tall, friendly and forceful, with a predilection for tab-collared shirts and striking ties, has had eight tough years at the top of AEG. Five years ago the company was almost bankrupt but, with the company under the wing of Daimler-Benz for the past two and a half years, Duerr has managed to emerge smiling and with his reputation intact.

This is in strong contrast to his predecessor, Walter Cipa, whose harsh, confrontational style alienated many in and outside the company. Cipa, said to be less ruthless behind the scenes than his tough image suggested, began the restructuring and capacity-cutting policies needed to trim the unwieldy AEG. But he did little to lift battered morale. The more public-relations minded Duerr initially tended to go too far the other way, talking about progress when AEG was still struggling badly. Some former colleagues say he underestimated the scale of its problems.

Today, AEG is on the move again. But the memories of five years ago, when operating losses totalled DM932m(£314m) and the shares sunk to DM23 in August 1982, remain. AEG, which had expanded too fast and carelessly, almost trying to become a second Siemens, had to seek protection from its creditors. They wrote off DM6bn of its debts, leaving the company to pay the rest.

Duerr was brought in by creditor banks to head the stricken AEG, which had foundered through losses on nuclear power and stagnation in other sectors. The son of an industrialist in the state of Baden-Wuerrtemberg — home to German household names like Daimler, Porsche, and Bosch — he still owns the Duerr engineering concern, which builds paint shops for *the motor industry. He had made* a name as head of the regional employers' wage negotiating team. On the other side of the table was the formidable Franz Steinkuehler, now president of the IG Metall trade union.

These days, Duerr prefers to talk about the future rather than the past. AEG is investing heavily in its main activities, with an eye to the long term rather than quick returns. In the next five years, it intends to spend some DM3.5bn. "We have moved to a rebuilding from a consolidation phase. But not too fast. When a car accelerates too rapidly, it wears out the tyres. That wastes rubber."

Duerr emphasises that AEG is not just moving in its chosen direction because Daimler now owns 56 per cent. It would anyhow hava striven to become more international and technologically advanced. But Daimler has strengthened both AEG's finances and its image. "The perspectives with Daimler are wider."

Just what are these perspectives? Duerr, also on the Daimler board, emphasises that they are very long term. Ever since Daimler paid DM1.8bn for its stake just over two years ago, outsiders have wondered what both sides had in mind.

In contrast to the striving for quick returns common in the US, Daimler and AEG are prepared to be patient. "We are in a highly industrialised society which is now in a state of upheaval," says Duerr. "It takes a long time to change existing structures."

While the result of the link between Daimler and AEG will take time to show through, one concrete example is emerging. This is an ambitious joint research centre being built at Ulm, south of Daimler's headquarters in Stuttgart. AEG, which last year spent DM900m (8 per cent of turnover) on research, planned the Ulm site before Daimler came along. The DM500m centre will combine the resources of Daimler and AEG with those of the local university and technical high school.

It is developments like these of which Duerr says: "Our children and grandchildren will see the fruits of what we are doing now." But AEG has plenty on its plate at present, and not just on the currency front. Olympia, its office equipment unit, still loses money in a highly competitive and fast-moving sector. AEG, which is working on video telephones and has developed text recognition systems, is combining all its office activities into one new division based on Olympia and aimed at the high-tech office of the 1990s.

Olympia is a valuable brand name, Duerr says. The AEG initials, now in bright red, are also familiar, especially in the household goods sector, which makes modest profits and keeps the company's name in the public eye. Duerr once toyed with the idea of selling this operation to raise much-needed funds. Then, he concedes, "I was more driven than driving."

Unlike some of AEG's other activities, which include radar, high frequency communications, airport control equipment, and letter-sorting machines, white goods like dishwashers and cookers do not promise likely mutual benefits with Daimler. But apart from profits, the division is important for AEG's image.

"We have to become more market-driven, not just technology-driven," says Duerr. "White goods help. Without market thinking, you can do nothing."

Heinz Duerr: personal approach

BUILDING CONTRACTS

Improvements at Butlins camps

Building workers are spending the winter at the seaside - to help provide happy holidays for thousands of families next summer.

TARMAC CONSTRUCTION has started work on contracts toimprove facilities at four Butlins holiday centres.

The largest project, worth £10m, is at WonderwestWorld, Ayr, where features will include a water-world complex -including leisure pools, slides, rapids and waterfalls.

Other work includes building a food court, extensions totwo caravan parks, an area for touring caravans, and modernising 370 chalets.

The company has already undertaken similar projects toupgrade facilities at Southcoast World, Bognor Regis, Funcoast World, Skegness, and Somerwest World, Minehead.

It is working at all three again this winter to carryout further improvements valued at £20m.

At Bognor Regis it is refurbishing kitchens and diningrooms, building two fast-food restaurants and staff accommodation, and modernising another 400 chalets.

Work at Skegness involves building a 1000-seat showbar, afast-food court, and modernising another 150 chalets, while a pub and supermarket are the latest additions at Minehead.

The latest projects - scheduled for completion in time fornext summer - bring the total value of contracts awarded to Tarmac Construction at all four sites since 1985 to more than £50m.

Nuttall busy in London

During the last few weeks before Christmas, **NUTTALL** has been awarded over £8m of work in the London area.

In Docklands, work has started on the East India Dock reclamation works where 140,000 cubic metres of contaminated silt are being removed from the bottom of the dock which is to be filled with 230,000 cubic metres of sea dredged materials under a £4.3m contract for London Docklands Development Corporation.

At Blackwall Yard, Nuttall Ground Techniques is constructing 85 40-metre long, 1.5 metre diameter bottom-grouted bored piles for the foundations of the new Reuter's Building. A successful 2500 tonne pile test has been carried out on this £1.1m contract for Music Lane, a subsidiary of Rosehaugh Stanhope Development (Holdings). Bovis Construction is the management contractor.

Nearer the centre of London, Nuttall has been awarded a £1.7m contract for the construction of a new cab route structure at Charing Cross station. The old brick arch hansom cab route into the station is to be replaced with reinforced concrete retaining walls, and a reinforced concrete core is to be provided for the new 325,000 square feet office development.

Greycoat Embankment Place is the client, and Laing Management Contracting is the management contractor.

At Liverpool Street Underground station the company iswaterproofing a sub-station for London Underground, acontract which requires excavation of a road and laying a waterproof membrane on the structure before backfilling and making good. The contract is valued at £114,000 and Bovis Construction is the management contractor.

To the west, two contracts have been awarded at Stockley Park by Trust Securities Holdings. The first is valued at £492,000 and is for a block paving car park, and for drainage and hard landscaping, and the second valued at £498,000 is for a large reinforced earth retaining wall, block paving and car parks and promontories into the lake. Schal International is construction manager on both these projects.

Fairclough builds offices

FAIRCLOUGH BUILDING's southern division has started work on two office construction contracts totalling £7.6m. The larger, at £6.6m, is for a five-storey development at 110-118 Middlesex Street, London E1 — close to Broadgate. The 70-week project, for AMEC Properties, comprises three adjoining buildings offering a combined 6141 sq metres of office accommodation. The buildings will consist of reinforced concrete framework with brick and sandstone cladding. Internal features include air-conditioning, raised access flooring, and five lifts, plus staircases. Completion is scheduled for early 1989.

In Bell Street, Maidenhead, Reinhold (High-Tech) has appointed Fairclough to construct a detached two-storey building, providing 1300 sq metres of business accommodation. The steel-framed, brick-clad development will feature suspended ceilings and raised floors, together with a feature staircase. Fairclough Building, which is part of the AMEC group, expects to complete the project in July 1988.

Resurfacing Gatwick runway

The runway at London's Gatwick Airport is to be resurfaced during 1988. Gatwick Airport has awarded a £5.5m contract to **ARC CONSTRUCTION**.

The work, which will be carried out at night, includes the removal of the runway's top surface, the treating of joints and resurfacing with Marshall asphalt. The project will take nine months with the runway being closed between 2200 hours and 0555 hours most nights.During the closure the emergency runway will be brought into use keeping the airport operational.

Solar shading Glasgow complex

A £1m plus contract has been awarded to **COLT INTERNATIONAL**, Havant, by Sir Robert McAlpine Management Contractors, to equip the biggest glazed building in Europe with solar shading.

After eight years of careful planning, St Enoch Centre in Glasgow, being developed by the Church Commissioners for England and Sears Property Glasgow, is soon to be enveloped in glass, covering a shopping and leisure centre complex. To avoid the effects of direct sunlight yet secure the desired level of lighting, 8,000 sq metres of fixed and motorised Colt Helioscreen solar shading equipment has been chosen.

Made from PVC impregnated woven glass fibre which reduces the effect of direct solar radiation by 88per cent, the beige white fabric, up to 12.6 metres long by 1.6 metres wide, will be kept under tension to limit sag, irrespective of temperature changes.

Operated by an automated management control system, triggered by thermostats and photocells, the motorised blinds will operate together and will retract in the event of fire. They are fire proof, damp, vermin and frost proof and colour fast.

DIARY DATES

FINANCIAL DIARY

TODAY

BOARD MEETINGS-

Finals:

First National Finance Corp.

Interims:

Kleinwort Benson Gilt Fund

Sandell Perkins

DIVIDEND & INTEREST PAYMENTS-

BICC 4p

Do. 6% 1st. Cum. prf. 2.1p

Do. 5½% 2nd. Cum. Prf. 1.925p

B.S.G. Intl. 0.6p

Barclays Bank Und. Flg. Rate Prim. Cap. Nts. $390.73

[illegible]

Assoc. Energy Services

Interims:

Brunning Group

Pepe Intl.

Singer & Friedlander

Zetters Leisure

DIVIDEND & INTEREST PAYMENTS-

Airflow Streamlines 1p

Allied London Properties 1.9p

Amber Industrial Hldgs. 3.25p

Anglo American Coal 80cts.

Annuities 2¾% 1⅜pc.

Annuities 2½% 1¼pc.

Apricot Computers 0.5p

Arenson Group 1.35p

Australia Inv. Tst. 2.7p

[illegible]

THURSDAY JANUARY 7

COMPANY MEETINGS-

[illegible]

BOARD MEETINGS-

[illegible]

WEDNESDAY JANUARY 6

BOARD MEETINGS-

[illegible]

FRIDAY JANUARY 8

COMPANY MEETINGS-

[illegible]

SUNDAY JANUARY 10

DIVIDEND & INTEREST PAYMENTS-

[illegible]

Trade Fairs and Exhibitions: UK

January 6-17
London International Boat Show (0932-854511)
Earls Court

January 7-10
Holiday and Travel Fair (021-780 4171)
NEC,Birmingham

January 9-14
International Toy Fair (01-226 6653)
Harrogate

January 10-14
International Lightshow Exhibition (05884 658)
Olympia

January 17
Antiques and Collectors Fair (01-883 7061)
Alexandra Palace

January 19-22
Which? Computer Show (01-891 5051)
NEC,Birmingham

January 22-24
Holiday Exhibition (0895 58431)
Alexandra Palace

January 26-28
Hirex Exhibition (01- 660 8008)
Wembley Conference Centre

January 30-February 3
British International Toy and Hobby Fair (01-701 7127)
Earls Court

February 2-3
Electronics Industry Show (0273 675131) - ELECTRO WEST
Bristol Exhibition Centre

February 2-4
London International Safety and Health Exhibition (01 446 8211)
Novotel

February 7-11
International Spring Fair - Hardware and Housewares Show (0604 22023)
NEC, Birminham

Overseas Exhibitions

January 10-13
Middle East Electricity Exhibition (01-935 8537)
Dubai

January 13-16
International Home and Household Textiles (01-734 0543)
Frankfurt

January 13-19
Hong Kong Toy Show (01-930 7955)
Hong Kong

January 14-18
International Supplies and Materials for the Furniture Industry - APPROFAL - and Take-away Goods for the Home Exhibitions - INTERKIT (01-225 5566)
Paris

January 22-29
Bahrain Fair (01-486 1951
Bahrain

Business and Management Conferences

January 8
Lea, Storey & Co: Total quality management and the customer (0272 211964)
Redwood Lodge Hotel,Bristol

January 13
International Business Communications: Implementing a strategy to prevent computer fraud in retail electronic banking (01-236 4080)
Cafe Royal, London W1

January 13
Manchester Business School:"Business and economics in a smaller world" with Professor J. Kenneth Galbraith.
Manchester

January 15
HS Conference Studies: Winning planning appeals (01-437 9090)
Cafe Royal, London W1

January 19
Management Forum: Expert systems in business and the professions (0483 570099)
Cafe Royal,London W1

January 19-20
Crown Eagle Communications: Successfully acquiring unquoted companies (01-242 4111)
London

January 19-20
Institute for International Research: Creating, implementing and projecting an effective corporate identity (01-434 0301)
Park Lane Hotel,London W1

January 20
Legal Studies and Services: Share schemes for executives and employees - the new law practice and strategy (01-236 4080)
Royal Lancaster Hotel,London W2

January 21
Institute of Personnel Management: Preparing to win at an industrial tribunal (01-946 9100)
Rembrandt Hotel, London

January 25-26
Financial Times Conferences; Civil aviation in the Pacific basin: the pattern of the future (01-925 2323)
Shangri-La Hotel, Singapore

January 26
EMAP Conferences: Corporate pensions - countdown to change - *the definitive guide to the new* legislation and regulations (01-404 4844)
Cavendish Conference Centre, London W1

January 27
The Association of Corporate Treasurers: Commercial paper - the opportunities (01-631 1991)
Cafe Royal, London W1

February 4
Spectra Retail Concepts: Looking forward at PC based instore systems (0734 794161)
Cafe Royal, London W1

February 9-10
Frost & Sullivan: Fibre optics in communications systems (01-730 3438)
Portman Hotel, London W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes in the details published

Why forecasters are at sea

ANTHONY HARRIS

THE US financial world is going in to 1988 faced with an unresolved whodunnit. Did the programme traders cause the crash of last October, as the Chairman of the New York Stock Exchange believes, or were they simply among the victims of it? This question will only be resolved, if ever, when we know exactly who did what, and when. In a general sense, though, I feel sure that the high technology hedgers are guilty as charged. Changes in prices are the means by which supply is made equal to demand. If half the market is hedged and can carry on as if nothing had happened, the system will fail to reach balance, and prices will move further.

These large price movements explain why economic forecasters are so at sea at the moment. They rely on models which relate the future to the patterns of the past; but as market volatility has grown, we have drifted further and further into uncharted territory. Economists will only be able to build a model of the present worldwide adjustment after it has happened.

The US adjustment may already be under way, despite the apparent paralysis in Washington. The really abnormal thing about the US economy is not the high level of the government deficit, in spite of all the fuss about it, but the low level of private saving.

This has been a surprise. According to the blueprint of Reaganomics, drawn up during the Carter presidency, tax cuts were supposed to stimulate saving, and tax cuts in favour of the rich to stimulate it still more. In the event, saving has fallen to ever new lows throughout the Reagan period, and nobody is sure why. Standing tall may have something to do with it; so may the bull market.

There are now some signs that this long swing is reversing itself, as swings do. Consumer spending seems to be less buoyant than consumer incomes, though this will not be certain until the Christmas figures are collated. Certainly consumer borrowing is growing far less fast; according to the most recent figures it is now lagging behind income growth.

Most tellingly, consumer confidence surveys show a really major fall, and it is heaviest not among those who lost money in the stock market crash, but among ordinary wage earners, who can read the newspapers, and are worried about their prospects. The first lesson of 1988 may be that ordinary people can react much more quickly to a crisis than can a government operating under the US Constitution.

It would be pleasant to report that American industry was reacting as rationally as its employees, and much more positively. The devaluation of the dollar has worked something like a miracle for the traditional core industries, the "rust belt". These are now working right up to capacity, mainly at very satisfactory profit margins. A streamer which appeared recently across the windows of a Mid-West stockbroker says it all: "In rust we trust".

High activity and long order books ought to provoke a surge in investment in new capacity, and the most recent investment statistics suggest that a boom may be beginning. However, there is also a great deal of anecdotal evidence of companies which are refusing to commit themselves. This is partly because the company directors are just as bemused as the economists by the volatility of financial markets; they know that the dollar is down, but have no confidence that it will stay down.

Another worrying possibility is that many US companies, which have the markets to justify investment and the confidence to do it, cannot finance the capital expenditure which they would like to make. This is a direct result of the overheated state of Wall Street until October 19, when no company, however large, felt safe from corporate raiders.

In self-defence, US companies have been borrowing to the hilt to preserve their equity from outsiders. The leveraged buy-out, which leaves all the equity in managerial hands, is simply the most extreme example; so far from expanding, LBO companies are still struggling to sell assets to reduce their debt burden. Many other companies have bought in their own equity on a large scale, substituting debt. They can borrow no more. The fever in the securities markets, which provoked this rush into debt, may have been cured on October 19. The debts remain.

It seems possible, on present evidence, that most of US industry is hamstrung in this way, and that the boom in plant and equipment shown in the recent figures reflects mainly expansion by foreign-owned companies, with the Japanese in the lead. This has already excited some protectionist congressmen, who talk about a foreign invasion; but it could prove the most helpful development of 1988.

It was the invasion of portfolio investors in the earlier 1980s which made it possible for the US to drift so easily into debt on a national scale. The present wave of factory-building is quite a different matter. For the time being, the factory-builders are helping to finance the US trade deficit (and since the biggest import growth by far is in capital equipment, they may also be causing it). In the longer run, though, they may achieve the soft landing for the dollar which the politicians and central bankers have found it so difficult to contrive.

INTERVIEW

A rock of certitude

John Lloyd meets Immanuel Jakobovits, the newly ennobled Chief Rabbi of the British Commonwealth

DISCUSSION of the British malaise has shifted from the material to the cultural and spiritual. The BBC and the Church of England now command the places in news schedules once reserved for names involved in bitter industrial disputes, such as Longbridge and Aslef. Recondite institutions and figures like Crockford's and the deputy director general of the BBC are given prominence deriving from the perception that the positions they hold are no longer sinecures of a secure establishment, but battlefields.

On a battlefield, fixed points and strong positions are enviable possessions. If it is true that there is a general search for a moral universe within which to locate our fragmented lives, then those who are discovered to be occupying firm rocks already – preferably rocks of ages – will benefit.

Sir Immanuel Jakobovits, Chief Rabbi of the British Commonwealth, ennobled in the New Years Honours list and the first rabbi to have been so, stands on such a rock. The vigour and certitude with which he gives voice to moral concerns is contrasted by many with the bitter internal wrangles within the Christian churches on, above all, matters of sex: in particular, women priests, homosexuality and AIDS.

His moral positions are not adopted – not consciously, at least – by reference to points fixed by contemporary debate, but wholly by reliance on scripture: on the law, and the prophets. His social reflexes derive from the position of a diaspora Jew of the late 20th century, drawing on a tradition, a history and a tragedy which are far more consciously realised in every Jew than their equivalents (where they exist) in most Christians.

By creating him a peer, the Prime Minister has put into parliament the most authoritative spokesman for "traditional" virtues in the country: it is an irony, but not in these times strange, that he should be an immigrant and that his values are those of a community which is determined to maintain its separateness.

To maintain separateness, Jews must maintain their very existence: and that at different times and in different countries has been in doubt. Jakobovits is not in doubt as to how that has been achieved: "The whole art of Jewish survival lies in the fact that we have managed to triumph over nature". And his own affinities with the Government are expressed in the congruity of its values to Jewish ones: "I think (the Government) has created a veritable revolution of attitudes, perhaps even more important than the economic advances which have occurred.

His most celebrated intervention in the general social debate was his response to the report commissioned by the Archbishop of Canterbury, Faith in the City (September 1985): he found it over gloomy, and too little concerned to stress individual human agency as a means of rescue from poverty and despair.

"Let me put it this way: I believe that work in itself has an intrinsic value, not only because it helps us to earn a living but because we pay our debts to society in this way. And therefore I make a distinction between unemployment and idleness. Unemployment is a curse, of course, but idleness is an even greater curse. Everybody can keep themselves busy and creative, and should be induced to keep themselves creative. Therefore I see self help as a means whereby we make ourselves useful, irrespective of rewards: here is an intrinsic purpose and a means whereby every individual does not look at himself, or allows others to look at him as a reject from society. I want everyone to feel that society needs us, that we have a role to play. That is why I advocate a passion for work, an addiction to work."

To challenge him on a code which could be seen as excessively individualistic, I unwisely quoted to him a saying of Hillel, a rabbi who was preaching some 2000 years ago: "If I am not for myself, who will be for me. And being for myself only, who am I?...Separate thyself not from the community. Trust not in thyself until the day of thy death." Jakobovits finished the saying after only a few words and continued: "We see here that Judaism seeks not to create a tension between individualism and collectivism: on the contrary, it seeks to balance out that which we owe to ourselves and that which we owe to others. Hence my support for a variety of political views: they are all needed. We need collectivism: whereby we think of the collective as something more than simply an accumulation of a lot of individuals; on the other hand we must not lose sight of the infinite preciousness of one individual...so there is all the time a balance to be struck between caring for the individual and at the same time not detaching him from society at large. No one should count himself out."

PERSONAL FILE

1921: Born Koenigsberg, Germany. Father a rabbi.

1936: Family flees to London

1947: Enters rabbinate after education at London University and Jews College. Marries Amelie Munk: they have six children.

1949: Made Chief Rabbi of Ireland

1957: Rabbi of Fifth Avenue Synagogue, New York

1967 Chief Rabbi of the United Hebrew Congregations of the British Commonwealth

1979 President of the Conference of European Rabbis

1981 Knighted

1987 Awarded peerage.

When he pronounces on sexual matters, he brings not just an unembarrassed certainty but also the same view of the need for a "triumph over nature" on which he insists in other spheres. On homosexual acts, for example: "I would call these things morally wrong. My creator tells me it is grievously wrong under the heading of immoral acts. I want to cultivate a moral sense in which society will differentiate between what is acceptable and what is morally unacceptable. Now I do see, of course, that there is a minority which has a natural proclivity to homosexual tendencies. But the art of life is to control your natural desires. If it were allowed, every time we felt something was "natural", to surrender to temptation, then we wouldn't have an order of society altogether...if I tell children, you can live either with a married partner, or any partner at all (as long as you are faithful) then it destroys their sense of values."

For Jakobovits, the only sexual behaviour which may be sanctioned is married love: no leader, religious or secular, has the right even to imply encouragement of any other. "My issue with the Government on its AIDS campaign was that the state should not encourage anything which confers legitimacy to immorality. I fear that the campaigns on AIDS presupposed that if you can't do the best thing (which is to be married and have fidelity within your marriage) then you must do the next best thing, and protect yourself against the consequences of your infidelity.

"Now if it had been properly spelled out, the campaign would have said: the ideal thing is that society promotes stable loving marriages: but where these, sadly, do not exist or are broken, we urge you to take precautions...that I could sanction. When Government propaganda, or education, promotes something which comes to terms with evil without saying so, then that is inherently unacceptable."

But for him, the greatest triumph for and of the Jews is their continued existence. It is a perception sharpened by his own circumstances – at 16, a refugee from Nazi Germany; and he is quickly stimulated to a controlled rage when, for example, it is put to him that there is a school of "revisionist" historians which denies many or all the facts of the Holocaust.

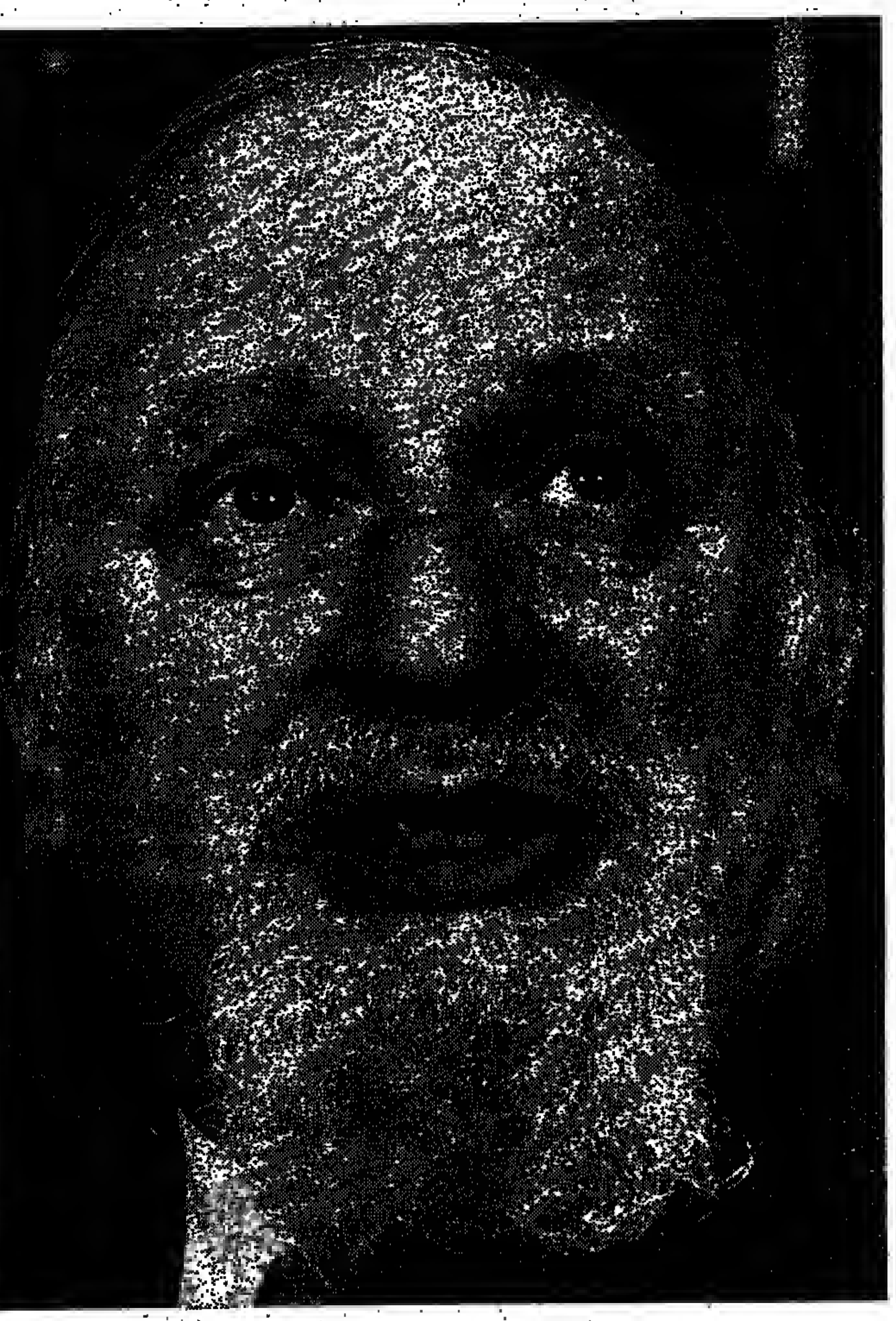
"I have lost innumerable close relatives – uncles, aunts, cousins – with whom I grew up. Where are they if they didn't perish? Entire vast communities...as you travel through the European continent you see places that used to have Jews by the hundreds of thousands and are now empty. Where are they? Take a country like Holland – 20,000 or 30,000 left out of well over 150,000 that were there before. Germany used to have 600,000 and now, what is it – 30,000 or something like that? So where are they if they didn't perish? Poland had 3m Jews – where are they? It's a cemetery, Jewishly speaking: Poland has a few thousand left out of millions."

He has been cheered in his work because, while Anglo-Jewry (some 320,000-350,000 strong) still suffers "losses" (or "defections", as he also calls them) through "marrying out" and drifting away from the faith, at the same time "we have an enormous revival today, quite a phenomenal rebirth of Jewish learning and Jewish living on a scale unknown in modern times. It is in Britain and it's global, it's a universal phenomenon – in Israel, Australia, in the US, in the Soviet Union for that matter. So that while many still get lost, the committed minority expands greatly, becomes more intensive and no doubt will, within the foreseeable future, constitute the bulk of our people."

That is, he believes, because people are seeking stable truths in a febrile age: and in his belief in that, he recognises, unwillingly and conditionally, a parallel with the current traditional versus liberal travails in Anglicanism: he took public issue, earlier this year, with the Very Reverend David Edwards, Canon of Southwark Cathedral, for calling the bible "fables".

"I do not rely on the fickle human conscience to guide me on what is right and wrong. I rely on external revelation and on the law. And so I wouldn't call that fables: that is a denigration of something I hold dear, precious, more than life itself. It is for the sake of this that all our martyrs gave their lives – to maintain the primacy of a teaching which gave meaning to our very existence...I do not think that modernity in itself, coming to terms with the moral world and what it has to offer, is in any way in conflict with believing that my moral norms are governed by factors which are immutable, beyond time, as true today as it was three thousand years ago and will be three thousand years from now.

"The very value of religious truth I see as being its not changing: It is beyond the freak ups and downs of fashions and fads; and therefore, as I once put it, I am a salesman of antiques: and the value of what I sell is that it has lasted, it has endured."



Judges bow too willingly

JUSTINIAN

IT WAS entirely predictable that the legal encounters of 1987 between the Government and the press over the publication of Spycatcher would spill over into 1988, if only because the Government's appeal against the pre-Christmas judgment of Mr Justice Scott, denying the Government permanent injunctions against the Guardian, the Observer and The Sunday Times, has already been scheduled for hearing in a fortnight's time.

Less predictably, but nevertheless worrying, has been this weekend's fresh foray by the Government to the High Court for an injunction against the same two Sunday newspapers over the memoirs of another ex-Secret Service officer.

The Government's claim for absolutism over life-long confidentiality for information acquired by its officers, so resoundingly rejected by Mr Justice Scott, was invoked once more in all its absolute form. And the judiciary appears momentarily to endorse that approach.

A week ago it appeared that Mr Anthony Cavendish's book, inside intelligence, had been circulated to his friends and acquaintances in the guise of a Christmas card. This was a private publication after commercial publishers had abandoned the idea of publishing the book following indications from government officials that five chapters of the autobiography concerned Mr Cavendish's Secret Service employment over a period of five years – 1948-1953 – if published would be objectionable.

The two Sunday newspapers were suspected of being on the point of publishing extracts from Mr Cavendish's writings. In the absence of undertakings not to publish, the Government went to the Vacation Judge, Mr Justice Ian Kennedy (not to be confused with Mr Justice Paul Kennedy), for an injunction to ban publication of any part of the book.

The injunction was granted *ex parte* on New Year's Day – that is, in the absence of those sought to be injuncted. On Saturday afternoon the two newspapers successfully persuaded the judge that the terms of the injunction were too widely framed, and that the restraint on publication should be restricted to matters describing Mr Cavendish's years working in MI6.

Assuming that the limited terms of the injunction, by which the newspapers are prepared to abide at least until the resolution of the Spycatcher appeal a fortnight hence, why did the Government in the first instance ask for injunctive relief in terms wider than was strictly necessary to preserve matters of national security? And why was Mr Justice Ian Kennedy acquiescent to a blanket ban on publication which he recognised 24 hours later was too broadly based?

There is no excuse for a government which is litigating to restrict freedom of speech to ask the courts for an order wider than it is strictly entitled to. To pursue a claim for prior restraint of publication by the media always calls for the utmost restraint on the part of the claimant. It can only be in exceptional circumstances that a gag on freedom of speech is permissible. There is a kind of trigger-happiness aboot the present Government in pursuance of, not just the public interest but its own interests that disclose an unhealthy attitude to free speech.

Such an improper use of governmental power should be constantly kept in check by the judiciary. No doubt it was the full argument which the judge heard on Saturday from the two newspapers' oounsel that persuaded him to limit the scope of his earlier order.

That said, it is the function of an independent judiciary in a democratic society not to be overly impressed by the fact that it is the government seeking a legal remedy. The apparent willingness of some judges in recent times to bow dutifully in the direction of government is worrying. Mr Justice Scott's trenchant, not to say pungent, criticism of the Government's claim to be entitled to stifle publication of Spycatcher, when all around the English-speaking world the book is freely available and by all accounts being avidly purchased, was a refreshing reassertion of the traditional approach of English judges.

Mr Justice Ian Kennedy's ruling can at least be justified as preserving the Government's claim, even if at trial it is rejected, since the interim injunction will be very short-lived. The newspapers will not have to wait months and months for the case to come on for trial, as they did in the Spycatcher case. The scope of confidentiality in respect of Secret Service officers should be authoritatively defined by the courts in the next few weeks so as to make clear the proper province of governmental ban on publishable material.

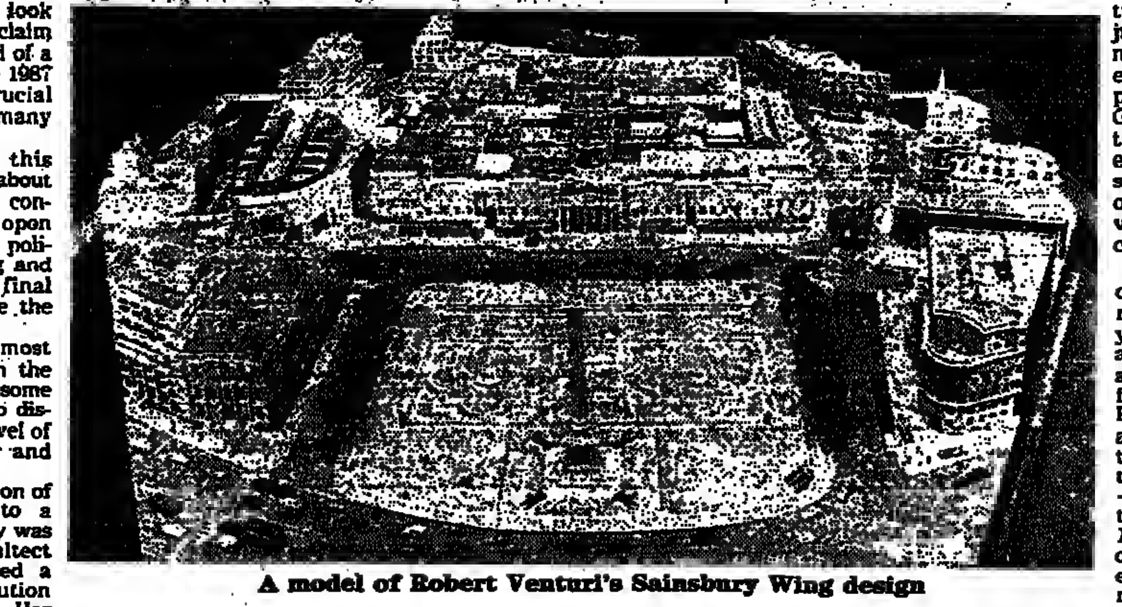
The current dispute has arisen largely because the law of confidentiality has itself been in a state of uncertain development by the courts unaided by any parliamentary intervention. On the other hand the transparent defects in the catch-all provision in Section 2 of the Official Secrets Act, reflected in juries unwilling to convict even in the face of compelling evidence, has led government lawyers to turn their attention away from the cumbersome and unworkable criminal law to the civil law of confidentiality. Hence the long-running battle in the courts both in Australia, New Zealand and in this country over the writings of Secret Service officers.

We are told that the Government is preparing a White Paper with proposals for reforming the ill-fated law relating to every unauthorised disclosure of official information. When that happens it will be less necessary to stretch, if not distort, the law of confidentiality to those cases where confidentiality has in fact been lost through wide dissemination of the confidential matter into the public domain.

Whatever the outcome of the present confrontation between government and the media, there is a continuing need to maintain a working relationship. Prevention of publication of matters that are strictly within the secrets of the state will be affected only by informal and private process of the D Notice Committee. The courts are not a satisfactory instrument to resolve these conflicts, at least so long as the judges remain uninspired by a constitutionally guaranteed freedom of expression such as exists in Article 10 of the European Convention on Human Rights.

Architecture in 1987/Colin Amery

Buildings debate finds a broader base



A model of Robert Venturi's Sainsbury Wing design

It is always tempting to look back on a passing year and claim that it represents some kind of a watershed. For architecture 1987 may not have been a crucial turning point but it was in many ways a significant year.

Architecture is, and this should not need saying, about the buildings, edifices, and constructions that man creates upon the earth. It is also about politics, personalities, planning and prevarication but in the final judgment what matters are the buildings.

In 1987 one of the most encouraging signs has been the fact that there have been some significant new buildings to discuss and that the general level of that discussion is broader and more intelligent.

Early in 1987 the conversion of Paris's Gare d'Orsay into a museum of the 19th century was unveiled. The Italian architect Gae Aulenti had produced a powerful architectural solution to a very difficult problem. Her adoption of a strong, almost Egyptian style within the iron and glass structure was brave and stylish.

The whole scale of the undertaking impressed all of those present at the opening – particularly visitors from Britain used to a more parsimonious governmental approach to the arts. We have major collections of 19th century art and artefacts that are poorly shown or invisible but there is little cultural vision that would enable a project like the Musee d'Orsay to get off the ground.

Much of the display, particularly of paintings, at the Musee d'Orsay is debatable but it has two great virtues. Architectural inspiration is one of them and a new and effective approach to information about art is another. The French commitment to computerised information is impressive and reveals a didactic approach to museums that could well be emulated here. It would be fatal if modern methods of communication obscured art but, used intelligently, there is no doubt that it can encourage illumination.

Paris offered other architectural pleasures in 1987 and the promise of more to come in 1988 and 1989. It was thrilling to see Jean Nouvel's Institut du Monde Arabe almost completed last year. It is another of President Mitterrand's "grands projets" for Paris and demonstrates both a late 20th century view of Islamic architecture and a very French fascination with high technology.

The light sensitive wall with its moving parts that shade a glass wall with a superimposed Islamic pattern will be a Paris landmark. The new centre will attract the public to the left bank of the Seine at the end of the Boulevard St Germain both by its contemporary beauty and its museum displays. The transfer to the new rooms of the Institute of the Arab and Islamic collections from the Louvre and some of the items from the Musee des Arts Decoratifs and the Musee des Arts Africain et Oceaniens also demonstrate a rational and sensible attitude to both museums and collecting in Paris. What are the chances of the new regime at the V and A doing some similar re-thinking?

Architecture and museums have been close partners in 1987 – indeed the new museum is the architectural icon of the 1980s. A major new one opened last year in Cologne – the Wallraf-Richartz Museum and the Ludwig Museum with a new concert hall on a crucially important site between the Rhine and the most unified Gothic cathedral in Europe. The architects Busmann and Haberer opted for an almost industrial approach to their buildings. Metal cladding, factory-like skylights and hard interior finishes make this a tough and not very comfortable cultural collection. In town planning terms it is more interesting – although the creation of a new square on top of the underground concert hall is not a complete success.

In London the opening of the Clore Galleries – an extension of the Tate to house and display the Turner Bequest – met with a mixed critical reception. The architect James Stirling, in my view, played with architectural fire in a spirited and original way. He does not do this at the expense of the showing of pictures.

The Turner galleries are very successful, beautifully lit by natural light, and elegant and formal as befits the collection. Any arguments about colour with James Stirling seems to fall on deaf ears (more appropriately, blind eyes) but his games with Neo-classical primitivism are rewarding and original.

At the same time as the Tate Gallery opened its new wing, the Trustees of the National Gallery announced their selected design by the American architect Robert Venturi. This put the architectural debate about the National Gallery back where it belongs – in the international league.

Mr Venturi's design was well received although some critics have found it too complicated and clever a concept with insufficient rationality to be a close neighbour of a classical building. Mr Venturi's concertina'd classicism is daring, his very tight planning ingenious and if the gods are with him his Sainsbury Wing design should develop into a fascinating new London building.

Major architectural activity does seem to have been confined to the capital and the south-east and two competition results show a diversity of architectural approaches. The proposals selected for the replacement of Spitalfields market will be designed by an extraordinary selection of architects. The list of names shows the way the developer/architect relationship is working. Richard MacCormac's firm is supported by much more commercial architects Fitzroy Robinson – and there is an encouraging chorus of smaller firms: Allies and Morrison, Edward Cullinan and Hunt Thompson.

The second competition result for the Land Securities, Stag Place, Victoria, competition was won by the comparatively unknown Richard Horden against competition from more familiar leading firms. His proposals for giant glass sails that will overlook the walls of Buckingham Palace have not yet hit any rocks of royal criticism.

The major international competition of the year, for a design for the Indira Gandhi Memorial Arts Centre in New Delhi, was won by Ralph Lerner, an American architect who had practised in England with Richard Reid. There were some interesting entries for this competition and it would be a worthwhile exercise to exhibit them. The site for the arts centre is an important one in relation to Sir Edwin Lutyens's plan for the city.

Philip Johnson put forward his proposals for the second stage of the Hay's Wharf development opposite the Tower of London. His adoption of the Barry-like forms of Highclere or the Palace of Westminster did not receive a welcome from the Docklands Development Corporation and were turned down.

The same board continued the development of London's Docklands with little architectural inspiration. As the crop of largely indifferent new buildings appears there is a terrible sense of a missed architectural opportunity for the capital. It is not just a lost architectural opportunity but a colossal failure to exploit the British talent for parks and landscaping. Both the Government and the LDDC seem to have thought that it was enough to have the cranes swinging in large numbers all over the dockland area with no vision of the second Venice that could have been created.

It was this lack of vision that caused the Prince of Wales to make his most thorough speech yet about the state of the art of architecture, particularly as far as the vital sites now available for redevelopment around St Paul's are concerned. The royal architectural critic drew attention, quite rightly, to the opportunity that "the second chance" – the demolition or collapse of the rotten architecture of the 1960s in our cities – gives to designers of talent and developers of vision. Architects, planners and developers came in for a severe royal drubbing but the speech also sowed the seeds for important new thinking.

Le Corbusier received the homage of the faithful at major shows at London's Hayward Gallery and (more successfully) in Paris. No one doubts his importance. What is worrying is the deadly seriousness of his supporters who refuse to admit that many of the master's ideas were incredibly damaging.

Erich Mendelsohn, an almost equally interesting architect although less original than Le Corbusier, had his centenary in 1987. It went almost unrecorded although a small exhibition about his work was mounted at the Bartlett School.

In England Erno Goldfinger and Maxwell Fry both died in their eighties and the equally long-lived historian, Henry Russell Hitchcock, died in New York. The passing of the founders and practitioners of the international modern style reminds us of their talents and their intelligence.

What has been sad about the cultural climate of architecture in 1987 was that it remained bedevilled by a polarisation of views. Any critic of bad architecture is sadly seen as an enemy of modernism. I would like to see an acceptance of a much more catholic view of new architecture in 1988, a recognition of the fact that we are in a lively and important transitional stage. It would be wonderful, too, if the profession, the patrons and the public, would accept as their common aim for 1988 a raising of standards of design and vision for, not just 1988, but to take us up to the Millennium.

L'italiana in Algeri/Covent Garden

Ronald Crichton

Over 50 years have passed since Rossini's *L'italiana in Algeri* was last given at Covent Garden. The title role then was sung by Conchita Supervia, who restored Rossini's comic mezzo role parts to the repertory in their original form. Supervia's inimitable timbre, caressing phrases and bubbling high spirits, preserved on disc (she recorded four numbers from *L'italiana* more than once re-issued), remain as challenge, inspiration and sometimes, no doubt, discouragement to her successors.

Although shunned since those days by Covent Garden, *L'italiana* has been firmly fixed in the repertory elsewhere as one of Rossini's popular buffo operas. The first act is continual delight, with the effervescence and absurdity streaked with genuine feeling. The second act has its points, but after the quintet the libretto strays into lengthy episodes concerning the appointment (to keep him from being a nuisance) of Isabella's hanger-on Taddeo as Kaimakan or lieutenant to the Bey of Algiers and the bogus enrolment of the greedy potentate himself as a Pappataci – imaginary tribe of complaisant cuckolds dedicated to eating, drinking and sleeping.

To these ceremonies we may have lost the key. Perhaps Rossini himself felt a certain lack of interest. The comic verve is undimmed but for once he runs out of tunes. Isabella's patriotic number, sung when she rallies her stranded compatriots to escape from Algiers with her and her adored Lindoro, is a different matter. This outburst of national feeling (at an early stage of Italian history) has the power, when well sung, of pulling the end of the opera together.

Covent Garden's Isabella, star of the Jean-Pierre Ponnelle production unveiled on Saturday (and already seen at the Vienna State Opera) is Agnes Baltsa. The Greek mezzo soon dispels any suspicion that the opera might be overwhelmed by the large house. Baltsa enters backwards, rescued from shipwreck and resembling a drenched governess, but in no time strong personality and vocal agility assert themselves. By the time Isabella reappears, regal in a huge crinoline (the Italian visitors wear mid-19th century clothes, the locals are fairytale oriental) she is in full command of the stage. In the reprise of Per lui che adoro the singer holds the house on a thread of tone.

The final pages of the patriotic aria tried her, as well they might. In the first part Baltsa was severe, rather as if Isabella was demanding the return of the Elgin marbles. There is a certain monotony of vocal colour, the quality good but undeviating.

As Mustafa Bey the Italian bass Paolo Montarsolo, well remembered from Glyndebourne, makes a belated but welcome Covent Garden debut. His full-size portrait of an entertaining old rapscallion – selfish, stupid, lecherous, credulous – deserves study by younger singers with buffo ambitions. Montarsolo has an engaging way of clearing the vocal hurdles (those fiendish triplets in the Bey's aria, for example) set up by Rossini for his first Mustafa, Filippo Galli, as if they didn't exist.

Deon van der Walt takes the tenor role of Lindoro, phrasing notably well even when the cruelly high tessitura pinches his tone, as it does in the second aria. Alessandro Corbelli gives a pearl of a performance as Taddeo, one of those Rossinian baritone characters who are either involved in the action against their will or who observe it from the outside – one wonders if the composer identified with them. Mr. Corbelli's easy, crystal clear diction is a treat. Roderick Earle does all that can be done for pirate Haly. Judith Howarth as the scorned wife Elvira, and Anne Mason, Zulma, give strong support.

The production has been staged for London by Sonja Frisell. The touch, with the exception of one or two details such as Isabella's snatching from Mustafa's plate of pasta (out of keeping with Miss Baltsa's general reading of the part) is light, even in the hilarious but dangerous first act finale. Ponnelle's setting, a handsome architectural framework with a central opening for more distant prospects (including a toy shipwreck) is less overpowering than some of this fertile producer-designer's inventions. The chorus of eunuchs, singing stalwartly in the tenor and bass registers, is gaudily robed or rather half-robed, with sagging, naked false bellies.

It is the conductor, Gabriele Ferro, who lends the evening its greatest distinction. Ferro has the gift of bringing the sparkle in Rossini not from outside with applied varnish but from inside the music. Some speeds are fast but there is no rush or clatter. The score, to its great advantage, has time to breathe. Ferro's shaping of the scene where Isabella and Lindoro shyly recognise one another, a page worthy of Mozart at his most penetrating, was a lesson in Rossinian interpretation. The woodwind shone brightly.

The show, sponsored by the Cluff Foundation, was enthusiastically received.

Paolo Montarsolo and Agnes Baltsa

Stars/Watermans, Brentford

Martin Hoyle

Outside Projects is the name that four of the Royal Shakespeare Company's brighter young up and comers have given to their od hoc company for small-scale productions in the cold outside world. Their brave enterprise can be seen for another week at the Watermans Arts Centre at Brentford.

In a short four-hander by Stephen Lowe we see how selflessly Rosie Timpson (so good as the wanly dedicated little northern nurse in the RSC's Chernobyl play, *Sarcophagus*) can age 20 years. note how Cornelia Hayes looks more than ever like Meryl Streep's younger sister, and watch the promise of such intelligent actors as Tom Knight and Nicholas Collett.

The problem lies in the play itself. *Stars* never seems quite sure whether it's opting for sitcom, absurdist fantasy or bittersweet *Brief Encounter*-type wistfulness. Dick, the cinema manager in a war-battered black-ed-out British town (it is 1944) interviews the applicant for the usherette's job in intermittent American, happily laying on the cliches about breaking into showbiz and even bursting into "I only have eyes for you" to the bewilderment of the girl who has her own ideas about glamour ("Oo the 'ell's Ruby Keeler?"). A parallel couple comprises a fantasising older woman and a young American serviceman who in turn is not quite what he seems. Dreams, disappointments, regroupings, reconciliation and resignation ensue.

So does some fairly uncertain humour; not to mention unconvincing attempts to conjure op a feeling of time and place with references to rationing, scarcity and nylons; and further flights of fancy into Bogartian mannerisms – none of which leaves us sure as to how seriously the characters take their own dreams or how seriously we are meant to take them.

Good performances all round. Besides playing the dreaming cinema manager, Mr Knight directs well.

Nottingham season announced

Habeas Corpus by Alan Bennett opens the Nottingham Playhouse's new season on February 17. It will be staged by Peter Wilson's Mobil Touring Theatre, the third such Mobil production.

Mike Harding's *Fur Coat and No Knickers* follows on April 6, prior to a national tour. A first play by Martin Lewton, *Prisoners* (May 11), Arthur Miller's *Death of a Salesman* (June 1) and *Lark Rise* (June 29) completes the season.

Ayckbourn to direct John Ford play

Alan Ayckbourn is to direct John Ford's best known play, *'Tis a Pity She's a Whore*, for the National Theatre, opening in the Olivier on March 3.

Rupert Graves and Suzan Sylvester play the brother and sister whose incestuous affair is at the centre of the play.

Lucia Popp/Wigmore Hall

Richard Fairman

The gradual emergence of Lucia Popp as a fully-fledged lyric soprano has been one of the more gratifying personal success stories of recent years in the opera-house. At the same time her career as a singer of German Lieder has been continuing apace and the New Year's Day recital at the Wigmore Hall was a timely showing of the new vocal potential discovered by this distinctive Czech singer.

She starts with the advantage of a voice that has a character of its own. We do not have here the usual creamy timbre of the typical German lyric soprano. There is a fast vibrato below the surface and a tautness in the production of the sound that throw up a quite different range of possibilities; and, being the artist that she is, Popp knows how to turn each of them to her advantage.

This recital was also vividly projected. The development of the emotions in Schumann's *Frauenliebe-und-leben* came across in a single wave of feeling, so that the desolation of the last song hit with even more power than usual; and she was in such a hurry to keep the cycle sweeping along that when Geoffrey Parsons paused between songs to turn his pages at leisure, she shot him a quite devastating look of impatience.

The detailed knowledge of a Schwarzkopf does not perhaps function alongside this general urgency. But whenever it seems that she may be starting to coast along and leave the clarity of her words and bubbling spirit to do the work of interpretation, she shapes a phrase with such individuality – as in "Glaub ich blind zu sein" at the end of the first song – that one realises the songs have been fully absorbed after all.

Her singing in the early Op 2 Schoenberg songs was equally lovely; the Strauss group rather less so. But after the heavenly singing that she gave us in one of her encores – Schubert's *An Sylvia* – nobody could go away feeling this was anything but a delightful way to start the year.

James Bond – the Panto/ICA

Martin Hoyle

The trouble with James Bond is that satirically, if not literally, he makes a sitting target. He has been ripe for send-up affectionate, envious or hostile over the past 20-odd years since his cinematic existence made him as much part of British popular culture as bingo or football violence; and for every occasion that he has escaped a sticky end in fiction, he must have been done to death in comic form countless times in any medium you care to name.

Nevertheless, the Brighton-based Zap Club has sent a genial company to the ICA in The Mall, London to cheer the dismal New Year season with a Bond spoof that contains much good humour, some ingenuity and a few hoary old jokes.

The core of the company is Brighton's Cliffhanger, the alternative comics who have been together now for nearly 10 years and who have successfully toured, broadcast and, collectively and individually, contributed to other people's shows. They are joined by an amiable Aussie from Ra-Ra-Zoo (reviewed before Christmas on these pages when at the Hackney Empire), the sweet-faced Judy Pascoe; and by John Dowie, comedian and pianist. Of the original Cliffhanger, Rebecca Stevens can still look furtive, menacing and guilty to hilarious effect; Tony Haase and Robin Driscoll remain as performers (and one of them can still summon up an unnerving likeness to Roy Hattersley); and Peter McCarthy now directs as co-author with Haase.

The show's main joke hinges on Bond's infatuation with an Australian feminist ("This is extraordinary! I didn't know girls could talk!") and his subsequent domestication. This extends to a job co-ordinating playgroups in Camden, and a rather rough first day as he learns the ropes of social service (he has to get a caretaker to load a skip with the 15 kids he inadvertently kills). Felicities include the inane inner workings of the secret service with an inventor who has come up with such British firsts as a barking contraceptive and who resigns to become "a singer-songwriter in the Cat Stevens tradition."

From this you will gather some of the zany and decidedly inconsequential flavour. Physically inventive (no set; though variations are rung on handy items of costume like balaclavas), the production also includes at least one very good joke about journalists.

Arts guide

January 1-7

Music

PARIS

Aldo Ciccolini, piano, Henri Demarquette, cello: Brahms, Schubert, Debussy (Mon 6.30pm). TMP-Chatelet (42 33 44 44)

Orchestre de Paris conducted by Carlo Maria Giulini, Barbara Bonney, soprano, Jard van Nes, mezzo-soprano, Keith Lewis, tenor, with the Paris Orchestra's choir conducted by Arthur Oldham: Bach, Mass in B Minor (Wed, Thur). Salle Pleyel (45 63 07 96)

Nouvel Orchestre Philharmonique and Radio France Choir conducted by John Nelson, Anne-Sofie von Otter, Frederick Plantak, Laurence Albert: Berlioz, Romeo and Juliette, Dramatic Symphony (Thur). Theatre des Champs Elysees (47 20 36 37)

NEW YORK

New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting, Yvonne Loriod piano, Jeanne Loriod ondes martenot. Messiaen (Thur). Lincoln Center (874 2424)

CHICAGO

Chicago Symphony (Orchestra Hall): Herbert Blomstedt conducting, Ivan Moravec piano. Mozart, Bruckner (Thur). (435 8111)

TOKYO

Tokyo Academics Ensemble, New Year Concert. Mozart, Schumann, Debussy, Franck. Tokyo Bunka Kaikan recital hall (Tue). (561 5012)

Tokyo Symphony Orchestra, Dvorak New World Symphony etc. Suntory Hall (Wed). (583 8151)

Opera and Ballet

LONDON

Royal Opera, Covent Garden: the latest Rossini opera to join the Royal Opera repertory is L'italiana in Algeri, in a new production by Jean-Pierre Ponnelle (borrowed from Vienna). Agnes Baltsa, Paolo Montarsolo, Deon van der Walt, and Alessandro Corbelli make up the cast; that excellent Rossinian Gabriele Ferro is the conductor.

English National Opera, Coliseum: Valerie Masterson sings her first Marschallin in the revival of Der Rosenkavalier, with Jean Rigby and Rosa Mannion, conducted by Christian Badea. Further performances of two Jonathan Miller productions - the calebrated Mafia-style Rigoletto, with John Rawnsley, and the inert, dully unfunny new Barber of Seville, with Della Jones's Rosina as the evening's single important saving grace.

PARIS

Kirov. The temple of classical ballet has brought, with Swan Lake and Giselle, a revelation: the couple Farouk Ruzimatov and Altynai Assylmuratova. Palais des Congres (426 62075) until Jan 10.

ITALY

Milan: Teatro alla Scala: Giorgio Strehler's impressive but gloomy production of Don Giovanni conducted by Riccardo Muti, with sets by Ezio Frigerio and costumes by Franca Squarciapino. A new cast takes over for the second half of the run, with Jose van Dam as Don Giovanni, Cheryl Studer as Donn'Anna, Patrica Pace as Zerlina. Also Nureyev's production of The Nutcracker, with scenery and costumes by Nicholas Georgiadis. (80 91 26)

Rome: Teatro Dell'Opera: Gounod's Fauat (sung in French) directed by Luca Ronconi and conducted by Gianfranco Masini, with scenery and costumes by Pier Luigi Pizzi. The cast includes Ruggero Raimondi, Jean Dupouy, Carol Vaness, Roberto Frantali and Alice Baker. (46 17 55)

Trieste: Teatro Comunale Giuseppe Verdi: The Balleta Nationals de Marseilles in Roland Petit's L'Angelo Azzuro, based on Heinrich Mann's novel Professor Unrat. (63 19 48)

WEST GERMANY

Berlin: Deutsche Oper: Die Hugenotten features Angela Denning, Pilar Lorengar, Andrea Andonian and Victor von Halem. Der Freischuetz in Johannes Schaaf's production stars Rene Kollo as Maz. Die Zauberfloete with Helen Donath, Barbara Vogel, Martti Talvela and Horst Laubenthal closes the week. (34 381)

Hamburg: Staatsoper: Le Nozze di Figaro is a joint project between Hamburg and Salzburg Mozarteum. The cast includes Linda Plech, Deborah Masseli, Ralph Houaton and Peter Galliard. Ariadne auf Naxos has Hildegard Hartwig, Heseon Kwon, Judith Beckmann and Dieter Weller. Also offered Die Verkaufte Braut with Linda Plech, Olive Fredricks and Dieter Weller; Dornroachen, choreographed by John Neumeier, and Daphnis und Cloe/Der Feuervogel, danced to music by Ravel and Stravinsky. (35 11 51)

Cologne: Opera: Der Rosenkavalier has a strong cast with Margaret Marshall, Theresa Ringholz, Delores Ziegler and Gunther von Kannen. Die Italienerin in Algier has Doris Soffel, Alberto Rinaldi, David Kubler, John del Carlo, and will be conducted by Ralf Weikert. (20 761)

Frankfurt: Opera: Le Nozze di Figaro has fine interpretations by Edith Mathis, Nene Ghristie, Marianne Rohrholm, Wolfgang Schone and Gile Cachmaille. La Boheme, in Schlondorff's production, stars Adriana Vanelli, Hildegard Heichele and Jonathan Welsh. John Cage's production of his two operas, Europeras 1 and 2, is again offered this week. (25 621)

Stuttgart: Wuerttembergisches Staatstheater: Das Rheingold, in a concert version conducted by Peter Schnelder has Eva Randova, Raili Viljakainen, Manfred Jung and Roland Bracht as leads. Also Die Entfuhrung aus dem Serail, conducted by Hans Zender (20 321)

NEW YORK

Metropolitan Opera (Opera House). Sir Peter Hall's production of Macbeth conducted by Giuseppe Sinopoli has its first seasonal performances with Eva Marton, Renato Bruson and Samuel Ramey. Les Contes d'Hoffmann, in Otto Schenk's production conducted by Charles Dutoit, features Gwendolyn Bradley, Roberta Alexander, Neil Shicoff and James Morris. Manuel Rosenthal conducts Die Fledermaus in Otto Schenk's production with Barbara Daniels, Judith Blegen, Tatiana Troyanos, David Rendall and Sid Ceausar. Lincoln Center (362 6000).

New York City Ballet (New York State Theatre). Nikolais and Louis. Two choreographers with their own companies, Alwin Nikolais and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.

WASHINGTON

Washington Opera (Eisenhower). The season continues with the little performed L'Amico Fritz by Mascagni in repertory with Ruddigore. Kennedy Center (254 3670)

HMS Pinafore (Opera House): Brian Mcdonald's production stars Ron Moody and Meg Bussest. Kennedy Center. Ends Feb 6 (254 3770).

Mr Toad/Theatre Royal, Bristol

B.A.Young

"The Adventures of," to give the full title, but the truth is, there are not many adventures. Toad relies mostly on his personality, selfish and swanky, and Ken Morley puts him across nicely enough. His first craze is for a caravan, including a two-actor horse that is given its head in due time.

Before Toad appears, we have already met Mole (Bob Hewis), who enters from a mole-hole and sings about the boredom of spring-cleaning, and Ratty (Damian Myerscough), who tells of the joys of messing about by the river. All three climb on to the caravan, which naturally meets an accident offstage at once. The dignified Badger (Phillip Reader) stands aloof from the jump-about comedy of the others, but he joins them on their look at the Wild Wood.

Here we encounter the Chief Weasel (Gareth Tudor-Price) and his mob. I knew him at once for a baddie, for he was wielding a rustic mike. But at last we are at Toad Hall, where Toad shows off his car (it contains an electrode somewhere, for the sake of the rhyme), and in a flash Toad has been charged with a number of motoring offences. He is given 20 years by a lady magistrate, and when he escapes from prison, dressed as a washerwoman, the Weasels have taken his house over, to a swinging anthem, "Yeah, yeah, we took Toad Hall," at which the audience began to show their sympathies on the wrong side.

Piers Chater-Robinson's script didn't seem to interest the almost-totally juvenile audience much as long as it stuck to Kenneth Grahame. The jokes in Edwardian public-school talk hardly raised a laugh. Either the author or Warren Hooper, the director, evidently foresaw this, for once Weasel with his mike and his black leather jacket had punctured the polite indifference, the last 10 minutes was pure pantomania, with "Oh yes they are" and "Which way did he go?" and one of Mr Chater-Robinson's songs on a song-sheet.

What is admirable is the decor by John Elvery, who has designed a series of sets and backcloths that truly explore the Kenneth Grahame quality of the narrative. I take it he did the costumes as well. They contain just enough animal disguise but no more. The author's own music serves its purpose, and the dancing numbers are well done and never too noticeable.

'Nana' moves to the Mermaid

Shared Experience's production of Zola's *Nana*, which has just completed a season at the Almeida Theatre, is to open at the Mermaid on February 8.

Adapted by Olwen Wymark with music by Anthony Ingle, Belinda Davison again takes the title role.

FINANCIAL TIMES

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Monday January 4 1988

New Year Resolutions

THIS YEAR will bring substantial challenges to world leaders, some already foreseeable and some unexpected. Here are some suggestions for dealing with the former in such a way as to gain breathing space to deal sensibly with the latter.

You first, **Mr Gorbachev**: declare victory in Afghanistan and withdraw, making sure all Soviet troops are out before next Christmas when the occupation would enter its 10th year. Declaring withdrawal will not make it less humiliating.

Remember also that managing relations with the West will be child's play compared to the challenge posed by your most determined and powerful adversary: the entrenched apparatchiks. You need allies at home as well as abroad, including the support of a cynical Soviet people. Try to develop the same skill in managing Soviet public opinion that you have displayed in your dealings with the West. You have already lost credibility by heaping abuse on Mr Yeltsin, a valued colleague until you attacked him.

Mr Reagan: you have given the US self-confidence through skilful rhetoric and the simultaneous provision of guns and butter. But despite your economic prospectus you have not repealed economics. It is Japanese and German lending, not an American supply-side miracle, that has made it possible to square the circle.

Maybe you consider the credit you have received a reasonable quid pro quo for the security guarantees that US guns provide to these rich former enemies. Maybe you even welcome the losses imposed on your creditors by the collapse of the dollar. But your power to tax foreigners has turned out to be as limited as your willingness to tax Americans. Americans have to save more. If you do not agree to higher taxes, financial markets are likely to do the job for you.

The US is now a debtor country and is going to go deeper into debt – by $130bn or so this year. Such a transformation in the external position of a great power has previously occurred only in wars. The resultant truculence of your allies, along with "Irangate," has given you the urge to secure your place in history by reaching spectacular agreements with your Soviet adversary. But your place in history is as secure as it is going to be. Do not feel you can secure it further either by reaching new agreements with Moscow in a hurry, or by invading Nicaragua to compensate.

Mr Baker and Mr Greenspan, decide on a level at which you will support the dollar. Indefinite depreciation is one way of escaping the debt burden, but only by destroying US credit and the world's key currency. Depreciation is not a magic formula for adjustment without tears. If you do not care about the value of your currency, others will abandon it and you will be forced to borrow in currencies issued by governments that do care.

Clever Soviet leader

As for you, **US congressmen**, bury the trade bill. While a US negotiating authority for the Uruguay Round might be useful, there is no hurry about it, and it is certainly not worth the rest of what you have in mind. Above all, forget the notion that any trade your constituents dislike should be stopped after labelling it "unfair". You will end up calling everything that goes on in a market economy unfair, just as if you were a bunch of socialists.

Meanwhile, US **presidential candidates**, remember that if elected you will have to live with what you have promised during the campaign, however unwise.

EC heads of government, with a clever Soviet leader bewitching your citizens, an indebted US tempted to reach deals over your heads that promise peace and cuts in the defence budget, an undervalued dollar ravaging your industry, and a US presidential election as well, life is going to get very difficult in 1988.

Resolve that this will be the last year in which a meeting of 12 heads of government is needed to set the price of wheat. The identification of Western Europe with a massively distorting agricultural policy has become a joke in very bad taste. As Oscar Wilde would have said, the CAP is the unspeakable preserving the uneatable.

So resolve not to come away from the special February summit in Brussels without a comprehensive agreement on agriculture and Community finance. This must put a firm lid on farm spending, provide a significant increase in structural funds for the benefit of the poorer members, and relate the contributions of member states directly to their respective gross national products.

With that settled, you can turn to serious matters: the abolition of intra-Community frontiers in 1992, and the maintenance of European security in what may be an age of superpower detente and nuclear disarmament, but will certainly be a period of increasing American unwillingness to foot the bill for European defence. This means insisting on priority for correction of the imbalance in conventional weapons in Europe with a dual track policy of modernisation plus negotiation – similar to that which has succeeded so well in the case of INF.

Debased international currency

Whether you like it or not, **Mr Kohl**, West Germany will play a pivotal role in the reform of the EC, in the promotion of West European growth, in the adjustment of global current account imbalances, and in the formulation of a European security position. The present is one of those times when not to take action in the fear it may prove wrong is far riskier than to take it.

A similar stricture applies to Japan, **Mr Takeshita**. Japan's economic adaptability is once again the wonder of the world, but now is the time for decisive leadership in two areas. First, Japan needs to commit itself to free trade by the end of the century. Like Victorian Britain, it would find this means not only cheap food but also the ability to enjoy the revenue accruing from overseas investments. Second, Japan should play a major role in solving the debt crisis, so giving the Japanese the opportunity to invest where long term returns should prove highest and allowing developing countries to benefit from Japan's managerial skills.

All governments, but especially the **five permanent members of the UN Security Council**, you should ask yourselves what more you can do to persuade Iran to bring the Gulf war to an end – it being understood that persuasion needs to combine pressure (arms embargo, oil boycott) with willingness to help Iran, as a bona fide victim of aggression, find non-violent means of redress and guarantees for the future.

Mrs Thatcher, your achievement is that failure is no longer regarded as the UK's destiny. Your past determination means that the Government has a degree of freedom of manoeuvre in domestic and international affairs that your predecessors have not enjoyed since the 1950s.

At home, avoid frittering away that freedom in irrelevancies or worse, such as the introduction of the Community Charge. Abroad, your priority should be Europe. You should do something about your image on the Continent where you were seen as a narrow-minded nationalist interested only in cash: a De Gaulle without the grandeur. Your image is improving but has a long way to go

Meanwhile, **Mr Lawson**, can you manage to prolong an expansion already more than six years old? The UK economy is growing rapidly and seems likely to go on doing so. There is only one justification for tax cuts: a comprehensive and radical tax reform. If you lack the courage, you should be aiming for a significant budget surplus.

You have been a great proponent of exchange rate management and macroeconomic co-operation. You and your colleagues in the G-7 should learn two lessons from experience and put them into effect in 1988. First, international declarations unsupported by a domestic consensus in the major countries created expectations they cannot satisfy and so have become a debased form of international currency. Second, the US will not care about the external value of its own currency as long as everyone else cares more.

Happy New Year to you all.

Martin Feldstein sees further turmoil in financial markets as the main threat to the US economy

At the mercy of investors

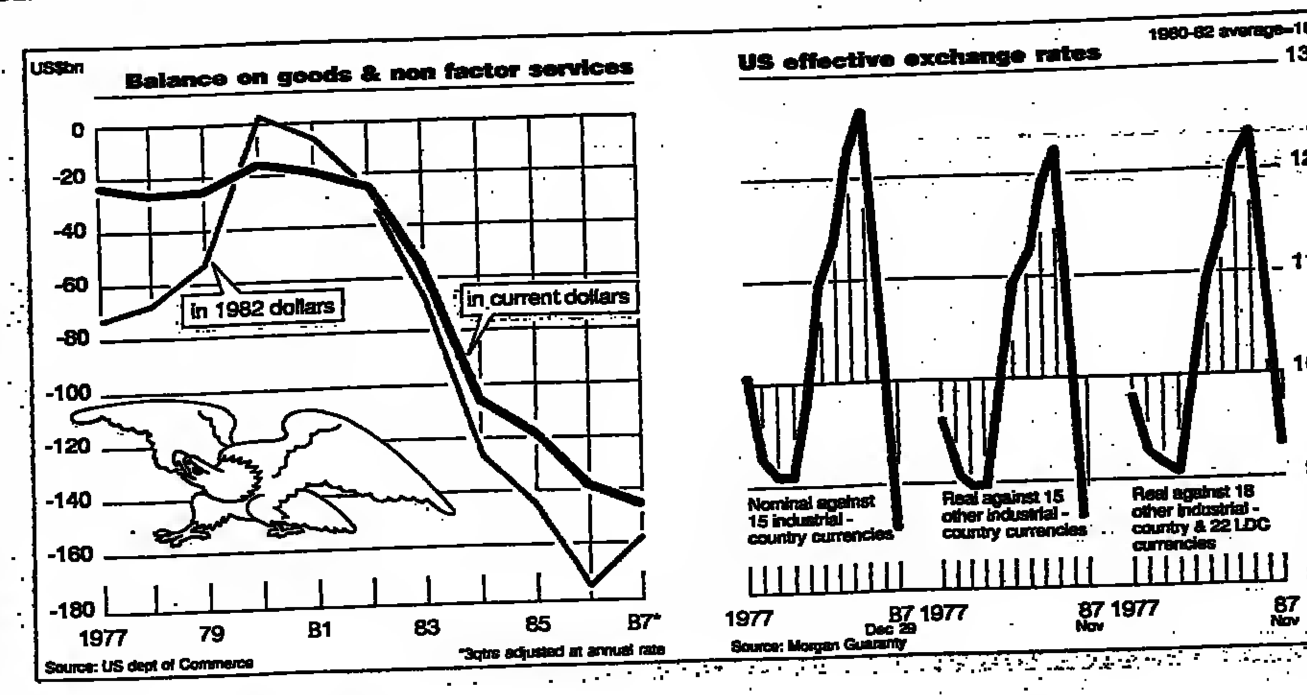
ECONOMIC FORECASTS

1988

DESPITE the stock market crash, it now looks like the US economy will avoid a recession in 1988. The steps taken by the Federal Reserve to assure liquidity immediately after the stock market decline prevented the more general financial collapse that might otherwise have occurred. In addition, the danger that consumers would be so frightened by images of another 1929 that they would cut back sharply on spending during the critical Christmas season has not materialised.

Although the decline in share prices will inevitably slow the growth of both consumption and investment, production and employment are likely to go on expanding in 1988 at a pace that is adequate to prevent any significant rise in unemployment.

The growth of production in 1988 will exceed the rise in domestic demand as the real volume of exports once again increases more rapidly than the volume of imports. The progress that occurred in 1987 in reducing the real trade deficit remains masked by the speed with which the dollar has continued to fall. While the real trade deficit declined by more than 15 per cent between the third quarter of 1986 and the third quarter of 1987, the falling dollar has left the current dollar trade deficit $10bn higher. Although such deceptive nominal trade statistics are likely to continue in 1987, the real trade deficit is expected to shrink by about $30bn in the next four quarters, providing about one-third of the real GNP growth over the year ahead.



This decline of the trade deficit will represent a significant contribution to overall production growth in the US. Nevertheless, the 1988 US merchandise trade deficit will still exceed $100bn by a substantial margin and the current account deficit will show virtually no improvement from its record 1987 level. The very slow pace at which the trade imbalance is being corrected reflects a correspondingly slow adjustment of relative prices between the US and its trading partners. Although the dollar has fallen by 50 per cent in the past three years, this has been reflected in import prices to only a very limited extent.

An important explanation is that foreign producers had built up very substantial profit margins on their US sales during the period when the dollar was rising in the first half of the 1980s. So more recently they could afford not to adjust their prices to the falling value of the dollar, and thus maintain their market shares. But the slow adjustment of the relative price of US imports is likely to continue in 1988 even though foreign companies have now reduced their profit margins back to the levels that prevailed before the dollar's sharp rise.

One reason for the slow pace at which foreign prices and the balance of trade are adjusting is the cost structure of the competing companies. Much of the US trade deficit is in capital intensive industries in which fixed costs are high relative to the labour and material costs of incremental production. Although US companies could eventually be the lowest cost producers in the world of many products even at current exchange rates, foreign companies with excess capacity are now willing to charge prices that are less than their full long-run costs if they can at least cover the incremental costs of production.

As long as American companies do not also have similar excess capacity, the foreign producers will choose to charge prices that maintain their market shares. Only when the time comes for those foreign producers to replace existing capacity will they be forced by the low dollar to relinquish markets to American companies and only then will American companies choose to invest in the capacity needed to supply those markets. Faced with the worldwide excess capacities that currently prevail, the US trade imbalance will adjust only very slowly.

The large continuing merchandise trade deficit plus the coming year's interest and dividends that Americans owe on the net foreign investment in the US automatically guarantee an equally large inflow of foreign funds to the US. What is uncertain is the dollar exchange rate at which those funds will be supplied.

Portfolio investors are willing to hold dollar securities only when they believe that the rate of return on dollar securities will exceed the rate of return on comparable foreign securities by enough to offset any expected decline in the value of the dollar. If they do not have that expectation, the demand for dollar securities will dry up until the dollar has fallen by enough so that its expected future fall is no longer large enough to outweigh the higher yield on dollar securities.

That is just what was happening in 1987. Although dollar bonds paid interest rates of 3 and 4 per cent more than the interest rates paid on German and Japanese bonds, private investors rightly feared that the dollar would fall by more than that differential, making foreign bonds better investments than their American counterparts. During 1987 private investors were therefore net sellers of dollar bonds. Net foreign investment in the US occurred only in the form of equity investments and accounted for only one quarter of the total inflow of funds from abroad that was required to finance the 1987 US current account deficit. The remaining three quarters of the capital inflow was financed by foreign central bank purchases of US government bonds.

Looking ahead to 1988, private investors around the world are likely to remain reluctant to buy dollar securities at current exchange rates. Despite the recent communique of the G7 finance ministers essentially reiterating the abortive Louvre statement of last February, the dollar will continue to fall in 1988 because the fundamental forces continue to imply that the dollar's decline over the next several years will outweigh the higher interest rate on US bonds.

What are those fundamental forces? First, although the decline of the dollar that has already occurred will cause the US trade deficit to shrink further, statistical studies indicate that the real value of the dollar must decline by at least another 5 to 10 per cent to reach a level that would today be consistent with a long-run trade balance.

Second, the real value of the dollar that would now be consistent with a long-run trade balance would not continue to be consistent with trade balance in the future. Trade experts estimate that the fundamental trends in American and foreign productivity and tastes that have persisted over many years require the real value of the dollar to fall at least 2 or 3 per cent a year just to maintain a trade balance once it is established.

Third, even a move to trade balance over the next four years would leave the US with an accumulated net debt to the rest of the world of approximately one trillion dollars. Unless the foreign investors who have provided this credit are content to treat it effectively as a gift to the US, at least some interest and dividends will have to be paid on that debt and not merely accrued and added to the outstanding stock of foreign investment in the US. Paying some of the interest and dividends would require that the US have not just a trade balance but a trade surplus.

Achieving such a trade surplus would require that the dollar's value be lower than the level required for trade balance.

The final fundamental influence on the future course of the dollar is the difference between US and foreign rates of inflation. If the US continues to have an inflation rate that is some three percentage points higher than the inflation rates in Japan and Germany, the dollar must decline by an additional 3 per cent a year just to maintain its real value.

Putting all of these pieces together implies that the dollar must fall by at least another 25 per cent over the next three to four years. That would bring the dollar to less than Y100 and DM1.20.

Portfolio investors anticipating such a cumulative decline of the dollar over the next few years will not be willing to buy dollar bonds now when their interest rate exceeds the rates on German and Japanese bonds by only three and four percentage points. The dollar must therefore fall by at least another 10 to 15 per cent in 1988 in order to make an investment in dollar bonds a good bet for private investors.

Although the falling dollar will weaken demand and production in Europe and Japan, its effect on the pace of US economic activity will basically be positive. In addition to the stimulus that a lower dollar provides to exports and to the replacement of imports by domestically produced goods, the lower dollar will encourage increased investment in additional capacity by American companies.

The key risk to the American economy in 1988 lies in the possibility of further turmoil in financial markets. Even if the Federal Reserve increases liquidity at a rate that should be adequate to support the expected expansion of aggregate demand, shifts in investors' expectations could cause a sharp rise in long-term interest rates.

The critical unknown is the political ability of the US Government to reduce its borrowing needs substantially in the early 1990s. The falling dollar will inevitably reduce the future US current account deficit and therefore the flow of foreign capital to the US in the early 1990s. If the level of borrowing by the US Government has not also been decreased substantially by that time, American interest rates will have to rise sharply to reduce the quantity of credit demanded to the available supply.

If investors around the world become increasing fearful of such a clash between the reduced capital inflow in the early 1990s and continued borrowing by the US Government, US long-term interest rates will rise in 1988. A sharp rise in US interest rates during the coming year would have very unfortunate consequences for equity markets and for the performance of the American economy as a whole.

The performance of the American economy in the coming year thus rests to a far greater extent than usual on the uncertain and unstable expectations of financial investors.

The author is president of the US National Bureau of Economic Research.

NEW YORK, JANUARY 3

Men and Matters

Fun with the the Mayor

"The boom is over," boomed Mayor Ed Koch last week, in his characteristically blunt year-end assessment of the outlook for a confused and chastened New York City.

Such is the Mayor's irrepressible enthusiasm for publicity and his love of political punch-ups that he makes New York's most serious economic crisis since the near-bankruptcy of the mid-1970s sound almost like fun. But with the vultures now blackening out the sun above the canyons of Wall Street, the City's public servants are already beginning to shiver as well.

Politicians, dustmen and even police officers could soon find themselves competing against stockbrokers for jobs behind the wheels of taxis and behind the bars in hamburger restaurants. It took the Mayor less than two days to react to the October crash on Wall Street by announcing a freeze on all city hiring. But barring a sudden recovery in the stockmarket, things could get a lot worse.

Financial services have accounted for 25 per cent of the growth in New York's employment and much more of the incremental tax revenues since 1976, the year the city finally began pulling itself out of its last fiscal crisis. That crisis almost produced the largest bond default in US history and exacerbated a collapse in New York property prices which made Black Monday look like a good day in a bull market. Now the most authoritative forecast for the local economy, produced by Crain's New York Business magazine, projects 71,000 job losses – equivalent to nearly a third of the whole decade's employment creation – within the next year. It also finds that the city's tax revenue could fall by as much as $300m.

For the contrarians, whose theories were so triumphantly vindicated by the explosion of the stockmarket bubble in October, there was an even more alarming portent last week for New York's fiscal future. Standard & Poors, the leading US bond rating agency, surprised the financial world by upgrading New York City's debt ratings from BBB+ to A-As. Jim Grant, editor of Grant's Interest Rate Observer, has pointed out, "Upgrades of the city's debt have tended to coincide more nearly with local economic peaks than with valleys." The City's debt was upgraded into the A category late in 1972, at the top of the last great bull market. Less than three years later, the proud denizens of the Big Apple were suffering the ultimate in civic humiliation.

They were going cap in hand to the despised country cousins in Washington for Federal financial support.

Still, there were a few compensations for New Yorkers from those grim events. New York became an affordable place to live again for people other than property developers and stockbrokers. Indeed, there are authenticated stories of Park Avenue apartments being given away for nothing by their distraught owners to anybody who was prepared to take over the huge liabilities for taxes and service charges. Felix Rohatyn, the celebrated investment banker who orgnised the New York bail-out, was able to achieve his ambition of saving the city and becoming a major political figure without having to turn his back on his career as senior partner at Lazard Freres.

Finally, when President Gerald Ford rejected the city's insistent demands for financial assistance, partly on the grounds that Wall Street has never been very popular in the American heartland, the New York Daily News got the chance to create one of history's greatest newspaper headlines: "Ford to City: Drop Dead."

Movie madness

As Presidential election year gets underway, spare a thought for 1987, the year of Irangate and the stock market crash. The verdict is out on the first. No-one can sell Ollie North T-shirts any more and Sylvester Stallone's machine gun-toting Rambo, that erstwhile symbol of macho Reaganite foreign policy, has become the staple diet of stand-up comedians. How will the crash register in the national consciousness?

In the liberal-minded New York enclave of Greenwich Village, a cinema audience unanimously laughed, hissed and booed a preview of Rambo IV but were conspicuously silent at the end of a showing of Wall Street, the latest offering from the Oscar-winning director of Platoon, an anti-Ramboesque look at Vietnam. Is it that the events of October have not sunk in yet? Or was it just a bad film? Three snippets may help form a judgment.

In one scene, the young broker who takes the rap for insider trading asks his interior designer girl friend what she wants out of life. She replies: "A Turner, a perfect diamond, world peace." That raised a modest titter from the audience.

The laughter was more confident in tha scene where the same young broker stands on the balcony of his hideous interior-designed apartment in contemplative mood and throws the question, "Who am I?" into the night air.

Lung power

Two years ago, David Friedland, a state senator from New Jersey, pulled on scuba diving equipment and dropped into the sea off Grand Bahamas Island. He surfaced 10 days ago in the Maldive Islands in Indian Ocean.

"He had a lot of lung power," said an FBI agent who helped bring him back to the US last week.

Friedland, now 50, had absconded days before he was due to be sentenced for taking kickbacks from a Teamsters' union pension fund. During his two years on the run he rose steadily from 15th to first on the Fed's most wanted list. He had travelled the world first class on a fake passport and money given by friends. Kenya, Venice, Paris, Hong Kong and Singapore were but a few of the places he managed to leave a step or two ahead of law enforcement agents.

But after the first six months, he shook them off altogther. It turned out he had been living in the Maldives with a companion called Colette Golightly. He brokered his hobby into a business which blossomed into a chain of five scuba stores through the islands.

The locals, growing tired of his outrageous high life style, began to keep an eye on him. His cover was blown by interpol just as he finally outstayed his welcome. Drawing on a trick he must have learnt from the Mob, he posed for a postcard in his scuba gear feeding, with food held in his mouth, a live shark.

Cop shop

Doing its bit to help balance the trade books, Fuji, Japan's largest commercial television network, has been running an intercontinental shopping-by-satellite programme for almost a year. Prime goods offered discerning consumers back home hava included a chateau outside Paris, a classic sports car from Tennessee and bathrobes from New York's Plaza Hotel. In a few weeks time, Fuji will offer an historic piece of New York City itself, a chunk of the old police headquarters.

From the "Edwardian Baroque turn-of-the-century building" on the edge of Chinatown, as the edifice will be described to Japanese viewers, generations of the city's finest had kept the peace. After the police moved into modern headquarters some years ago, the splendid structure had stood empty until an enterprising developer gambled on turning it into 56 apartments.

Two worth less than $1m a piece will be offered to Japanese viewers as a warm up for the main event: a three-storey apartment worth perhaps just under $2m.

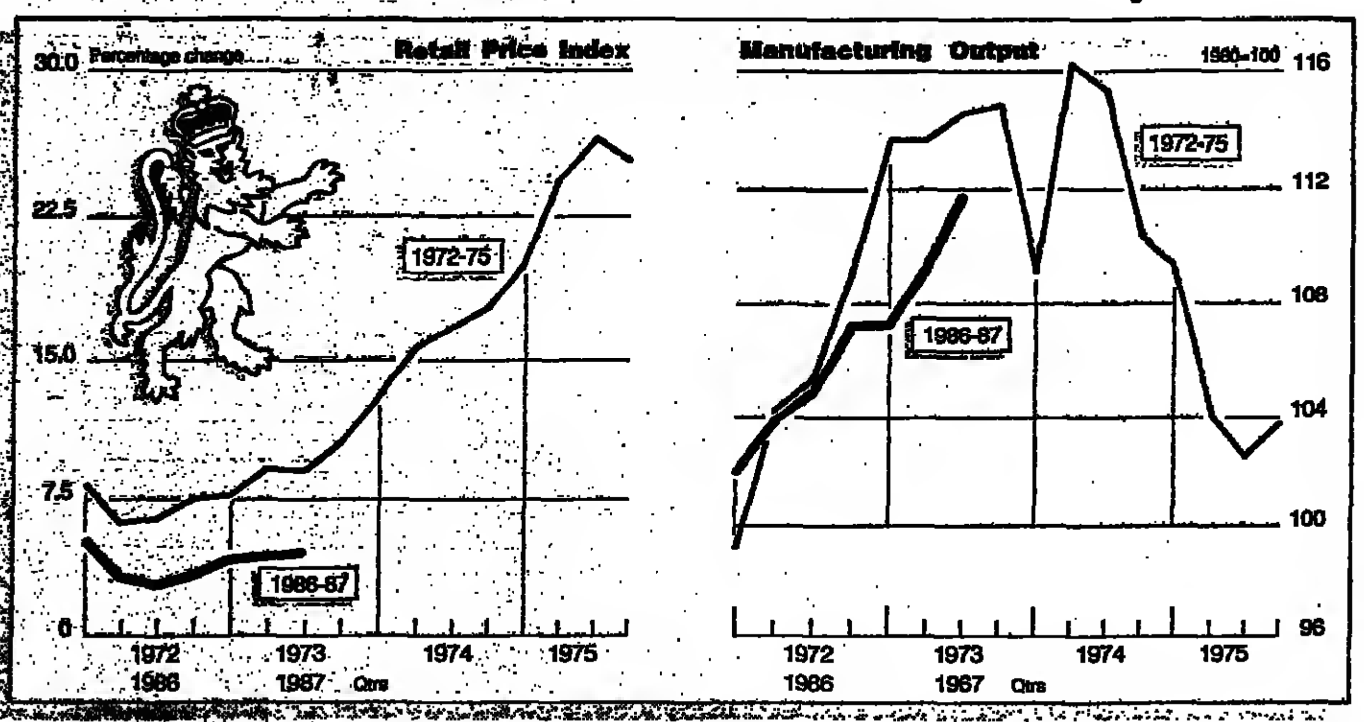
Observer

Some pleasant surprises ahead

ECONOMIC FORECASTS

1988

Alan Budd on the prospects for the UK economy



"THIS IS clearly a time when economic forecasting is a more than usually hazardous business." That is the kind of phrase which novice forecasters include in their first draft reports. Their more experienced colleagues cross it out and explain patiently that forecasting is always hazardous and that present difficulties are no greater than usual.

But I am quoting from UK Chancellor Nigel Lawson's speech in the House of Commons introducing the Autumn Statement. If his Treasury officials let him say it we must believe that forecasting is exceptionally difficult at the present time, as indeed it is.

We have had an exceptional post-war collapse of share prices and cannot be sure about the cause and consequences. Nor can we be sure that there are no further falls to come. We have uncertainties about US policy and about the dollar. Oil prices may be about to tumble. In the UK we have been experiencing an exceptional boom and we cannot tell how long it can be sustained without serious consequences for inflation.

I believe that 1988 will be a year of steady growth and low inflation. Growth is likely to slow to 3 per cent from the 4½ per cent experienced in 1987, but that should be a welcome relief from the over-hectic pace of last year. Inflation should stay at its current rate of about 4 per cent, but it is prospects for inflation that give the greatest cause for concern.

Were it not for the stock market crash there is no doubt what the main story about the British economy would be. The economy has been growing remarkably rapidly. Between the second and third quarters of the year the total economy was growing at an annual rate of well over 7 per cent in real terms. In October manufacturing output was 6 per cent higher than a year earlier.

This rapid growth has been accompanied by a welcome fall in unemployment, but the news that this is the fastest recovery since 1973 should make us extremely nervous. The boom of 1973 was followed by two years of falling output and an acceleration of inflation to over 25 per cent. Should we fear the same consequences now?

A year ago I wrote: "It is not inflation in 1987 that should give cause for worry, but the prospects for inflation in later years. Britain knows from bitter experience that it is almost impossible to check inflation once momentum has built up". At that time there was a risk that the government, in its anxiety to win the election, would be over-generous in its Budget and would add to demand at a time when it was growing rapidly of its own accord.

In the event the Chancellor of the Exchequer was able to be both cautious and generous. He was able to cut the standard rate of income tax by 2p and to announce a figure for the Public Sector Borrowing Requirement which was smaller than most people expected (and it will turn out to be even smaller).

Demand has roared ahead but so far there has been little sign of accelerating inflation. Growth in 1987 is likely to be 1½ per cent more rapid than I expected a year ago but inflation will be close to my forecast. *Is* this simply the calm before the storm, with an inevitable explosion of inflation next year, or should we now recognise that this has become a remarkable economy, well able to grow rapidly while inflation stays low?

Comparisons with 1973 may be instructive. The Conservative government embarked, in 1972, on a deliberate attempt *to* shock the economy into rapid growth through a conventional fiscal and monetary expansion. The budget deficit was allowed to rise rapidly and the money supply bounded ahead. The spur to these policies was the rise in unemployment in 1970 and 1971; there was little fear that the growth would strain the productive capacity of the economy nor was there much concern about inflation. It was hoped that rapid growth would actually reduce inflation, and if that failed, prices and income polices could be introduced. *And nobody seemed to notice* that Britain was embarking on these policies just when the world economy was booming.

This time the rapid growth has occurred despite (or perhaps because *of*) a tightening of fiscal policy. It is true that growth has been helped by a rapid growth of credit, but there is all the difference between a credit expansion which is financing a self-generated private sector recovery and one which has been prompted by government action.

Among other things, credit may have been growing rapidly but it is extremely expensive. Also there is no question of seeking to suppress inflation by an incomes policy. Finally we have seen the remarkable transformation of British industry which has raised our sustainable rate of growth.

Is this simply the calm before the storm, or should we now recognise that this has become a remarkable economy, well able to grow rapidly while inflation stays low?

However, comforting comparisons with 1973 should not suggest that there is no danger of inflation; it took a year or two for the disastrous consequences to appear last time. *We need to be sure that the* Government has both the motive and the means to control inflation. Its strategy is based on monitoring and controlling the growth of Money GDP. *It does not set explicit* targets year by year, but its figure for the current financial year (as presented with the Budget) was 7 per cent. At the moment GDP seems to be growing at a rate of more than 9 per cent a year.

So far the extra growth is appearing in the form of real output rather than prices, but if inflation is to be avoided, the growth of money GDP will have to be brought down to a rate which is consistent with the UK's sustainable growth and a low rate of inflation. The question is whether this will happen automatically or whether the government will have to act to slow the growth of demand.

Even before the fall in share prices it seemed likely that growth would be slower in 1988 than in 1987. The rapid growth of consumer spending, which has partly been financed by a fall in the savings ratio, was unlikely to continue at its recent very rapid pace. Also the favourable conditions which helped produce a strong growth of exports this year are no longer evident. The fall in share prices should further help to slow demand.

We estimate that a fall of 30 per cent in share prices cuts the growth of consumer spending by about ½ per cent over a two year period. But the 1 per cent fall in interest rates since then could well offset that "wealth effect" completely. The more important (and more difficult) question is the reaction of businesses. One would expect the fall in share prices to have at least some effect on capital spending decisions, since the cost of equity funds has risen. If there is a serious loss of confidence the consequences could be much more severe. Surveys reported since the share price collapse, including those conducted by the Confederation of British Industry, suggest that confidence has not been dented. On balance I believe that the combined effect of the share price collapse and the subsequent cuts in interest rates will slow consumer and investment spending slightly.

Developments in 1988 will depend partly on the world economy and on government policy. The world economy has been growing quite briskly in recent months. Perhaps we have at last seen some of the long-postponed benefits of the oil-price fall. I also believe that the greater exchange rate stability (precarious though it was) achieved by the Louvre Accord helped. Though it provided a welcome pause after the exchange rate gyrations of earlier years, the Louvre Accord was bound to fail. It tried to defend a value for the dollar which was too high, given the domestic policy of the United States.

Since Black Monday the dollar index has fallen by 8.4 per cent, there has been an agreement to cut the US deficit and American interest rates have risen relative to those in the rest of the world. I believe that the policy shifts and the fall in the dollar have produced more favourable conditions for a period of exchange rate stability. (Though I also recognise that reputable US commentators expect a significant further fall in the dollar.) There is no reason why the necessary adjustment of US policy should cause a recession there, or anywhere else. The United States needs to improve its trade balance and reduce its domestic demand. *If* we are to avoid a recession we need to see the opposite shift in the rest of the world. Much of the adjustment can come about automatically through lower inflation and an *improvement* in the *terms* of trade as the dollar falls. Growth in the OECD economies as a whole may slow slightly compared with 1987 but there is little need to fear a recession.

In the UK, government policy has been concerned with keeping monetary growth (as measured by M0) within its target range of 2 to 6 per cent while keeping sterling below DM3. At times it has seemed that the two policies might conflict; confidence in sterling has threatened to push the exchange through the DM3 barrier while monetary growth has been accelerating. The fall in oil prices has removed some of the pressure from the exchange rate and the government will no doubt accept some further decline in the rate if oil prices fall further.

In his next Budget Mr Lawson is likely to report that the Public Sector Borrowing Requirement for 1987-8 was zero, or even a surplus. If the past is any guide, his PSBR for 1988-9 will be no larger than the announced figure for 1987-8. If by Budget time he takes a more cautious view of 1988 than was presented in the Autumn Statement and if there is a sharp fall in oil prices, he might, exceptionally, allow it to rise to £2bn. Our calculations suggest that the Chancellor can cut the standard rate of tax by 2p and still have a zero PSBR in 1988-9.

Against that background I would not expect the pattern of demand in 1988 to be greatly different from that in 1987. Real incomes are likely to rise by slightly more than 4 per cent and consumer spending will rise by about 4 per cent. Investment rose strongly in mid-1987 and I expect growth to resume this year in response to the increasing evidence of capacity shortages.

Prospects for foreign trade are not as favourable as they were in 1987. The world economy will be growing less rapidly and we shall, at best, be maintaining our competitiveness after last year's rise in the exchange rate. Export growth is likely to fall below the growth of imports. Some further deterioration in the balance of payments is likely but it should readily be financed by capital inflows.

Some find it difficult to believe that we can grow faster than the rest of the world without a balance of payments crisis; but if our growth is based on more favourable supply conditions then we can certainly do so. If the economy grows by 3 per cent we cannot expect the recent rapid falls in unemployment to continue, but the signs of skilled labour shortages suggest that we need supply-side solutions rather than a rapid growth of demand to *bring* unemployment *down* further.

To return to the threat of inflation. The underlying growth of earnings for the whole economy is now estimated to be 8½ per cent; in manufacturing it is 8 per cent. Those growth rates partly reflect increased overtime and the widespread rise of productivity payments; in that sense industry has been able to afford them. If those rates continue against a slow growth of output and a fairly stable exchange rate, the consequence is likely to be higher unemployment rather than higher inflation. An important difference between now and the early 1970s is that at that time employees were trying to gain real increases in pay from employers that could not afford them. As a result rapid increases in pay and an accomodating monetary policy led inevitably to inflation. This time companies can afford the pay increases but they do not guarantee there will be jobs. Finally, in our general assessment of 1988 we must remember that each year the British economy manages to exceed the expectations of all but the most optimistic of our forecasters. There is something happening out there which the conventional approach seems to miss. We can expect further pleasant surprises in 1988.

Percent	1987	1988
GDP average estimate	4.5	3
GDP excl oil	5	3.5
Consumers expenditure	5	4
Fixed investment	4	4
Exports	6	4.5
Imports	7	6
Retail Prices 4th qtr	4	4
Balance of Payments £bn	-1.5	-2.5
Unemployment million excl school leavers	2.6	2.4

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ECONOMIC FORECASTS

1988

What's a few percentage points?

A lighter view by Eric Roll

FIVE YEARS ago, speaking at the Annual Dinner of the Society of Business Economists, I got carried away by the approaching Christmas season, as well as the society's annual economic forecasting caper, to make some predictions of my own.

I made it clear that I was not going to compete with their economic forecast. Like the King in Hamlet, I always view the economy's future "with one auspicious and one dropping eye". Moreover, while I think I know the difference between a 1½ per cent and a 1¾ per cent spread over Libor, I find it very difficult to distinguish between a "growth recession" from 2¾ per cent to 2½ per cent and an "improved growth" from 2½ per cent to 2¾ per cent. I, therefore, confined myself to a guess of what we might hear from our Lords and Masters and - if I may add without risk of misunderstanding - from our Mistresses.

I have succumbed again to the temptation of trying my hand at this sort of extract from an imaginary economic Old Moore's Almanack, and I leave the readers - if any - to guess which of the following are (a) the same, (b) fairly similar, (c) totally different from those of five years ago.

1. On January 1 the President of the United States announced that the long awaited and often postponed premiere of the new play, Boom with Balance, was definitely fixed for March 15. ("After the primaries had started" observed an unidentified White House source.) When told by newspapermen that he had said this many times before, he replied "So what! I am *just being consistent*."

The Chancellor of the Exchequer, having had a classical education and being aware of the sinister significance of the Ides of March, said that the opening night of the new British Musical had been fixed for April 1. He said: "We may be a fortnight behind the Americans, but we have a better plot and better cast, our heroine has a stronger voice and she speaks proper English."

As for the name of the new play, he said: "We don't believe in these catchy short titles. See what trouble some people get into when trying to find a short name," he added, with a chuckle. "Ours will be called Continued Steady Growth (though maybe less than last year), no budget deficit, lower taxes but maybe some foreign deficit. Andrew Lloyd-Webber is already busy composing the music."

2. March 1. In a strongly worded statement the Bank for International Settlements in Basle urged the commercial banks of the world to "do some fresh sovereign lending, particularly to the newly industrialised countries of Latin America; otherwise they might provoke the very collapse which they fear". One spokesman, who did not wish to be named, said "There is no doubt that in recent years the banks have behaved very foolishly: we must now make sure that they go on behaving very foolishly."

3. June 1. In a strongly worded statement, the Bank for International Settlements in Basle said that "Undoubtedly the quality of the assets of many commercial banks has seriously deteriorated. They must make more provisions and apply more rigorous prudential standards." When asked how the banks were supposed to reconcile this statement with one made three months earlier, a spokesman said "That is their funeral."

4. August 1. The British Treasury denied vigorously that Her Majesty's Government had any policy in regard to exchange rates. "What are markets for" said a Treasury spokesman.

However, a strong rumour persists in the City that the Government is shortly to introduce legislation banning all electronic equipment, including pocket calculators, in foreign exchange dealing rooms, and imposing the compulsory use of the abacus. This, it is said, would slow down foreign exchange dealings sufficiently to make exchange rates less volatile.

A source close to No.10 added: "It is hoped that it will also put a stop to the constant nagging from some quarters for British adherence to the exchange rate mechanism of the European Monetary System. With the abacus there can be no question of being tied to a deflationary or an inflationary D-mark."

A spokesman for a well-known merchant bank who did not wish to be identified said: "This is typical. It will make New York, Zurich, Frankfurt, Singapore, Hong Kong, Tokyo and even Paris more important than they already are. It will put hard working and well-paid foreign exchange dealers in London out of work, and it will reduce our invisible exports."

5. October 1. The Bank of England denied vigorously any suggestion that it had any policy in regard to interest rates. "What are markets for?" said an anonymous spokesman.

However, it has come to light that several members of the staff of the Bank have received medical treatment for a painful condition of the right elbow. No organic reason has been discovered and doctors believe that this condition is due to the increasing practice of "nudging" money markets. A Labour MP is to ask the Chancellor whether future entrants into the service of the Bank will be made aware of this new occupational hazard.

6. December 1. The Treasury announced that it was giving up forecasting and that it had donated its model of the British economy to the Finance Ministry of a Central African state.

In announcing this development, the Chancellor said: "This is entirely in line with our policy of privatisation and the encouragement of competition. From now on we shall rely on the forecasts of the National Institute of Economic and Social Research and the new ones just started by the Institute for Economic Affairs. We shall be better served and the modest fee of £5 million per annum which we will pay to each of them will be largely made up by savings in staff. Henceforth we shall be a slimmer and fitter Treasury."

Lord Roll is president of S. G. Warburg Group.

FINANCIAL TIMES
Monday January 4 1988

Janet Bush on Wall Street

Forecasters emerge as agnostics

AFTER ALL that, the Dow Jones industrial average ended the year 2.3 per cent higher than it started, a bland little number on the face of it. But 1987 has changed a lot of things.

It was the year that yuppie bashing became a national sport. Newsweek declared the 1980s over with a front page headline: "Greed goes out of style." It predicted: "In the days to come we will calm down, lighten up, gain weight, stay home more and pay as we go." And all because the stock market crashed in October?

Americans ended 1987 reading a book called *The Bonfire of the Vanities* (Tom Wolfe's latest) and queueing up to see a proselytising hymn against capitalism - Oliver Stone's film Wall Street.

Who will forget the clip of Stone's wayward young broker anti-hero gazing across the lights of Manhattan from his Upper East Side apartment and musing on one of life's great questions: "Who am I?" The audience predictably laughed.

It was the year that risk-taking lost its glamour and brokers' marketing strategies changed overnight. Securities firm Prudential Bache ran full page advertisements with the slogan "Rock Solid Market Wise."

Like all years, 1987 came up with a new strain of jokes. In this case, most of the best humour was at the expense of Wall Street. Did you hear about the merger between Shearson Lehman and PaineWebber? The new firm will be called Shear Paine. (Shearson Lehman, of course, linked up with E.F. Hutton with the loss of thousands of jobs.

PaineWebber went a different route, bolstering its capital by allowing *Yasuda Life*, the Japanese life assurance company, to take a major stake).

It was also the year that economists were humiliated. Mr Robert Prechter, the prominent Elliot Wave theorist who became a household name in 1987 and exerted such power over expectations in the run-up to and immediate aftermath of Black Monday, admitted his timing had been out.

He had forecast a 3,600 top to the bull market near the end of 1988. He wasn't by any means the only one. Merrill Lynch, for example, was going for 3,000 on the Dow by the second half of this year.

Even the bears underestimated the size of the market fall which was to come. In July Mr Michael Metz, managing director of Oppenheimer & Co, predicted a huge sell-off of perhaps 300 points compressed into a few weeks.

Who could have expected a 508 point fall in one day? Economists have been markedly humble in forecasting 1988. It is quite refreshing to read so many expressions of complete agnosticism from the forecasting community.

Mr Ned Davis, publisher of an investment newsletter, is delightfully candid. At the beginning of 1987, he forecast a strong stocks rally during the first half of the year followed by a strong decline in October and November.

The problem was, as Mr Davis puts it, that he did not take his own forecast seriously enough and did not cut back his position sharply enough, soon enough.

"I know if we had stressed our 1987 forecast more forcefully, I would have gotten a lot more headlines, publicity and commissions, and I would probably be the leading guru on Wall Street right now.

But what it comes down to is that I'd rather make steady money each year than be considered a genius forecaster one year and a bum the next year" is his epitaph for 1987.

The last week of the year saw the publication of the first major report on the causes and implications of the October crash, marking what will no doubt be only the first stage in a far-reaching philosophical backlash to the heady days of the bull market.

Sponsored by the New York Stock Exchange, the report proposed that stock indices should be traded on the floor of the NYSE, that regulatory authority over all US financial markets be consolidated under one regulatory body – the Securities and Exchange Commission – and that margin and capital requirements for trading in futures should be raised.

Publication of the report immediately provoked criticism – particularly in Chicago, the world centre of options and futures trading, which could stand to lose business if indices were to be traded on the floor in New York.

The report on the crash by the Administration-sponsored Brady Commission, which was due originally to be published today, has been delayed until Friday.

The financial community will have to wait until then for any signs of a political backlash against Wall Street and its satellites.

The political response is crucial for, as 1987 was the year of the crash, 1988 is the year of the presidential election. No Democrat or Republican can afford to side with the yuppies of Wall Street against America's 50m (voting) private investors.

Mexico creditors study bond offer

Mexico's loan–for–bond exchange offer presents the international banks with a dilemma as they begin the calculations, writes Alexander Nicoll in London

MEXICO'S international bank creditors have begun complex calculations as they await the receipt this week of documentation inviting them to take part in the country's innovative loan-for-bond exchange offer.

Mexico plans to issue up to $10bn of new 20-year bonds, of which principal repayment will be backed by its holdings of US government securities, and to cancel in exchange a larger amount of existing bank loans.

The exact amount of debt retired will depend on the bids which banks submit, but could in theory be as much as $20bn based on the nearly 50 per cent discount to face value at which Mexican loans are traded in the secondary market.

For most banks, the decision on whether to bid will be determined largely by the treatment likely to be given to the transaction by accountants and tax authorities in their respective countries.

Morgan Guaranty, Mexico's agent bank, says it has obtained approval from both regulators and accountants that US banks exchanging some of their Mexican exposure will not have to value all their remaining loans at the implied discount.

Bankers' guesses on the likely level of bids centre around 70 per cent of face value of the existing debt, largely because most banks have taken loan loss provisions of about 30 per cent. This would be considerably above the 52 cents on the dollar at which Mexican debt has been trading in the secondary market.

Mr Michael Milbourn, a director of Standard Chartered Merchant Bank who heads its asset trading group, calculates thet Mexico may save some $137m a year if the full $10bn of new bonds are issued.

The calculation is based on Mexico buying old debt at 70 cents and issuing the new securities at par. If it did so, it would retire $14.3bn of debt on which – assuming an 8 per cent London interbank offered rate – it is now paying 8⅞ per cent interest or $1.26bn per year.

On the new $10bn of debt, it would pay 9⅝ per cent or $962m per year but its effective interest cost would be 11.22 per cent or $1.12bn per year because it is doing without interest on the $2bn of reserves which it is paying to the US Treasury as part of the transaction, according to Mr Milbourn.

The offer presents banks with a dilemma. If they put in a successful bid, they would have to take an irretrievable loss, writing off an amount equal to the discount implied by their bid. They would receive a security which, although US-backed, tradeable, and paying a higher interest rate, would also be likely to trade at a discount because interest payments are not US-backed.

Although they would be excused requests for new "forced" loans of the type raised repeatedly from existing creditors since 1982, they would also be taking on securities with a longer maturity even than existing rescheduled Mexican debt.

The alternative – forced on some banks because they would feel unable to realise losses – would be to hold on to existing loans in the hope that Mexico's economic policies and debt moves will help to return the country to creditworthiness. They could also hope that secondary market prices will improve to a level enabling them to exchange their exposure for cash instead of becoming involved in the complexities of the auction.

Mesnwhile, banks holding a total of more than 50 per cent of Mexico's public sector debt to banks are required to give their approval if the offer is to proceed. They will be asked to waive clauses which prevent Mexico's reserves being pledged to other creditors.

Morgan Guaranty made clear last week, however, that banks were not being asked to approve the issue of debt senior to their existing loans. The new bonds would rank equally with existing loans – though they would obviously be better credits because of the US backing.

Fears of Argentine default rise

A chorus of claims that a debt moratorium is inevitable will greet the IMF team as it arrives in the Argentine capital, reports our Buenos Aires Correspondent

PESSIMISM is gathering over Argentina's prospects for coping with its foreign debt payments, amid fears that the figures simply will not tally.

A mission from the International Monetary Fund is due in Buenos Aires this week to review progress under the existing $1.425bn stand-by loan agreement.

The IMF team will hear a swelling chorus of claims that some sort of moratorium on debt service is inevitable this year. The claims come only weeks after Argentina won a waiver of conditions which it was to have met in order to receive its last stand-by tranche, and days after foreign banks disbursed $500m under the $1.95bn refinancing deal reached last year. Argentina's trade surplus is expected to increase this year after a disastrous slide in 1987 – but so is the cost of servicing the $52bn debt.

Latest forecasts in government circles claim the surplus will move up to $2.75bn. However, bankers point out the 1987 figure was originally supposed to be about $2.5bn, but is now reckoned at perhaps $800m.

Interest payments will rise this year by $150m to a forecast $4.65bn. This year, however, bankers and officiels agree Argentina will not be able to draw heavily on foreign exchange reserves, as it did in 1987. Up to 80 per cent of interest payments last year is said to have been met from freely available reserves, which are now reported to be down to a few hundred million dollars at most.

There is a growing consensus that, without the cushion of reserves, Argentina will be forced into a default sooner or later.

Bankers say not just the funds are missing, but the political will as well.

Official efforts to curb the budget deficit – an issue of immediate importance to the IMF experts as they review the Government's performance – are stuck in the Senate.

The deficit was supposed to fall in the second half of 1987 to no more than 2 per cent of GDP, whose total is officially estimated at $70bn. Instead, it is thought to have equalled 4.3 per cent in the final quarter and about 6 per cent in the second half, giving a full-year figure of *over 7 per cent against an original target of 4 per cent.*

Government bills to raise more than $2bn in a combination of forced savings – a system obliging companies and individuals to lend the government funds – taxes on cheques and legal documents, and increases of up to 29 per cent on petrol duties were rushed through the lower chamber of Congress just before Christmas.

However, these have been ambushed by the opposition Peronists in the Senate. The Peronists have made their support for tax measures conditional on more funds for the provinces. President Raul Alfonsin has already conceded the point but the Peronists, beholden to their allies among Argentina's autocratic right-wing union bosses, also want new labour laws.

The impasse at least partly stems from the government's conviction it can only rule by doing a deal with the Peronists, rather than the dozen smaller parties holding the balance of power in both chambers.

The obsession repeatedly costs Mr Alfonsin dear on the economic front. The only bill to clear Congress so far is a return to free collective bargaining – long a key demand of the unions.

The Government ushered in 1988 with a gradual move out of the pay and prices freeze imposed in an emergency package as monthly price inflation hit almost 20 per cent last October. Officials claim inflation is now down to about 5 per cent a month and they plan to hold it to 4 per cent this month.

However, the thaw, the deficit and faltering economic growth are already threatened by the promised removal of public sector wage controls. Mr Alfonsin is still waiting for the second half of the economic policy he planned when the emergency package was launched almost three months ago.

Picture by Ashley Ashwood

British Prime Minister Margaret Thatcher and her husband, Denis, yesterday came out on to the steps of their No. 10 Downing Street official residence to mark her achievement in becoming the country's longest-serving leader this century.

Mrs Thatcher, whose eight years and 244 days in office overcame the record set by Herbert Asquith at the time of the First World War, brushed aside critics of her style of leadership and gave notice that she remains impatient for further radical reforms, writes **Political Correspondent Michael Cassell.**

The Prime Minister's personal milestone was, however, greeted by criticism as well as praise. In a television interview scheduled to be broadcast tonight, Sir John Nott, former Defence Secretary, said she had regularly shown herself capable of "going over the top" in policy-making, of only being restrained by the people around her, and described her Government as "centralist and authoritarian."

But, he conceded, her achievements were immense and that she might be recognised as one of the greatest prime ministers since the Second World War.

She said that, when she took office in 1979, Britain suffered from the "British disease," but now the world believed that Britain had found a cure and wanted to learn from its achievements. She pledged to push through important reforms and identified three important tasks: to extend the "benefits" of Conservative Government to more people, to play a leading role in world peacemaking and to restore what she described as traditional British standards.

African agenda: Page 3

Saudi Arabia to tax expatriate workers

BY FINN BARRE IN RIYADH

SAUDI ARABIA, facing its first government borrowing in 20 years, is to reimpose an expatriates-only income tax.

Under the measure, which becomes effective this month and without warning, expatriate workers in the Kingdom will have to pay income tax of between 5 per cent and 30 per cent, depending upon their earnings.

This is the same tax that was levied in the early 1970s against expatriates. Saudis will not be taxed.

Consequently some 30,000 Americans, and slightly more Britons, face large salary cuts.

The British are already suffering because their riyal-denominated salaries are collapsing along with the dollar. The riyal is linked to the dollar because the Kingdom's oil exports are paid for in dollars.

The new tax is expected to generate sufficient funds to overcome a projected SR38bn ($10bn) budget deficit.

The Saudis unveiled an SR141.2bn budget on December 30, of which SR8bn will be drawn from financial reserves, and SR30bn financed through borrowing. The Kingdom last borrowed 20 years ago. Under the new borrowing plan, treasury bonds will be issued on a project basis.

The tax is being sprung without warning, was not mentioned in the budget as a revenue earning device and may explain why the Saudis felt free to plan on revenues that presupposed close to $20-a-barrel provided they stayed within their 4.3m-barrel-a-day Opec quota.

Expatriates who earn SR6,000 ($1,600) or less a year will be exempted. Those earning up to SR16,000 a year will pay 5 per cent. Those with an annual salary of up to SR36,000 will pay 10 per cent; up to SR 66,000 will pay 20 per cent; those earning above that will pay the maximum 30 per cent.

The income tax, according to the Council of Ministers' Royal decree, will be paid on "specie and kind". This hits expatriates particularly hard, because many from the west receive free homes, company cars, free education for their children, plus airfares to and from their homes and vacations.

But the tax will not only hit the higher paid expatriates.

Because air fare will be included in cost, a Bangladeshi streetsweeper who earns perhaps SR170 a month may find his air fare, housing and food allowance will push him into the tax net.

The net affect of the income tax could be an exodus of highly trained westerners – doctors, lawyers and other professionals in Riyadh. Some believe this since it would free high-level jobs for more Saudis and make Saudi workers less expensive to hire.

Rumours that income tax was to be reintroduced first started when the Kingdom's general organization of social insurance contributions for foreign workers early in 1987.

Employers paid 8 per cent, and employees 5 per cent for the pension scheme. The Government said it would reimburse the money, but has not done so far.

World Weather

Continued from Page 1

Israeli air raids kill 19

between the Lebanese Army and Mr Walid Jumblat's Druze militia and coincided with a naval blockade against Druze militia ports imposed by the Lebanese Army in the wake of the defection of a lone pilot in one of its French-made Gazelle helicopters.

The Lebanese Army demanded the return of the helicopter and slapped a sea and air-enforced blockade of the illegal ports of Khaldeh and Jiyeh run by Druze and Moslem militias opposed to Mr Amin Gemayel, the country's Christian Lebanese President.

The Druze helicopter pilot's defection from Christian areas to a valley near the coastal village of Damour focused on grievances against the Christian-dominated army.

The pilot complained about religious discrimination inside the military establishment and the still unresolved assassination of Mr Rashid Karami, the former Sunni Moslem Prime Minister, in June.

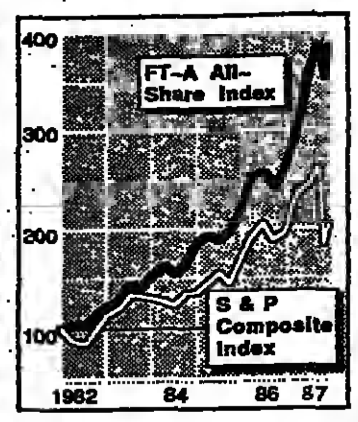
Mr Karami was killed when a bomb planted under his seat ripped through a Lebanese Army helicopter that had taken off from Adma, a base in the Christian heartland north of Beirut.

THE LEX COLUMN

Searching for a bear market

Was the Crash of '87 just the inevitable correction of an unprecedentedly long and vigorous bull market, or did it mark the beginning of a prolonged bear market for worldwide equities? At this stage all that can be said with any degree of certainty is that almost three months after the collapse, the patient remains in a state of deep shock and is continuing to exhibit a number of worrying symptoms. How these symptoms are treated over the coming months will provide the best clues to the direction of equity and bond prices in 1988 and beyond.

The most visible symptom of the world's worrying financial condition is the US dollar, which begins the new year in much the same way as it began 1987 – very weak. It has been falling for nearly three years and has more than halved in value against the currencies of the world's two *other economic super-powers* – Japan and West Germany. But despite this massive devaluation and recent heavy intervention by leading central banks, the US currency continues to slide, raising fears of renewed inflationary pressures in the US and increasing the danger of a severe recession in the rest of the world.



Unease

The US economy, which is entering the sixth year of an unusually long period of economic expansion, has been relying increasingly heavily on overseas investors to finance its chronic budget and trade deficits. Indeed, the recent upheavals in the world's financial markets reflect a growing loss of confidence by overseas investors in the ability of US policymakers to come to terms with the country's deep-seated economic problems. US consumers are spending too much, saving too little and relying on foreign investors to pick up the tab. If confidence is to return to the financial markets, the US needs to demonstrate that it can solve its problems without pushing the world into a recession, or even a slump. Its ability to provide a convincing answer is complicated by the fact that 1988 is a Presidential election year and there is a danger that Washington will opt for letting the dollar slide further, rather than risk precipitating a recession by taking measures to support its currency. A favourite doomsday scenario involves a runaway flight out of the dollar forcing a sharp rise in US interest rates, which in turn precipitates a severe recession.

These sorts of fears explain why the world's equity markets enter 1988 in such a nervous mood. The record $17.6bn US trade deficit for October looked terrible, but nevertheless there are underlying signs that the US is beginning to make substantial progress in repairing its chronic trade imbalance. In the first nine months of 1987, for example, export volume rose at an annual rate of 18 per cent, and there must be a very good chance that the dollar will bottom out during 1988, which should bolster overseas confidence in holding US paper at some stage. The other good oews is that the 37.6 per cent devaluation of the dollar, on a trade-weighted basis, over the last three years has done more to help US industry than any protectionist measures the US Congress can pass and has reduced the possibility of a damaging trade war.

Slower growth

The US Administration, at least, believes that it has done what is necessary to pot its house in order. It is forecasting that economic growth will slow from around 3.25 per cent in 1987 to 2.4 per cent in the current year, and the OECD is forecasting that growth of the major industrialised countries this year will slip by a modest half percentage point to 2.25 per cent. The strength of the price of copper and other industrial raw materials in recent months adds to the picture of a world economy which remains surprisingly resilient.

While world stock markets are looked upon as a sensitive indicator of trouble over the horizon, they have a habit of forecasting more recessions than in fact occur. A recession, tends to be defined as two consecutive quarters of a contraction in economic growth. On this basis official forecasts give no indication of a recession in 1988 or 1989 and corporate profit growth remains strong. Salomon Brothers, for example, is forecasting a 16 per cent rise in US profits this year, a 20 per cent increase in Japan, a 12 per cent rise in the UK and a 5 per cent rise in West Germany. However, forecasting in current conditions is even more hazardous than usual. Last October's crash – the largest and most extensive fall in stock market values – wiped an estimated $1.7 trillion ($1,700bn) off the world's wealth, and no one has any real idea how this will affect economic growth and business confidence. The next few months should begin to give the first clues of the scale of any cutback in spending plans by both consumers and industry in the aftermath of the crash, and will indicate whether the world's stock markets have over-reacted to the prospect of recession.

The London and New York equity markets have both fallen by just under 30 per cent since thair respective peaks in July and August, while Tokyo is down by 19 per cent from its mid-October record. The average post-war decline in a US bear market is 30 per cent, and it could be argued that the world's stock markets have just experienced the *shortest and sharpest* bear market in recent history. The yield on the FT All-share index has risen from 2.8 per cent in mid-July to 4.3 per cent, and the ratio between the yield on equities and bonds, which had got badly out of line in the summer, has returned to more normal levels in London, if not New York.

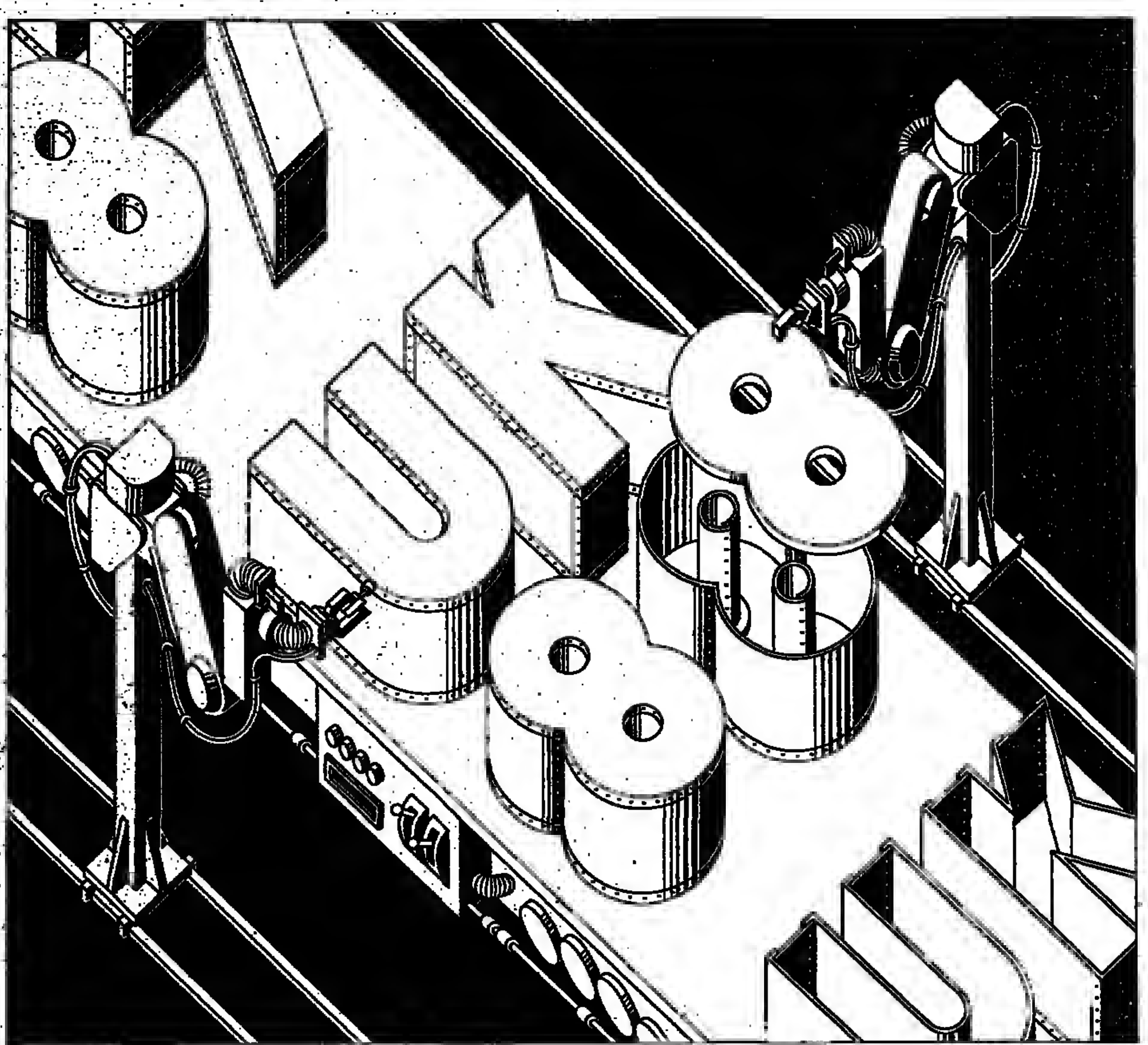
Average value

After the recent stock market fall, equities appear neither particularly cheap nor expensive by historical standards. Goldman Sachs, for example, estimates that the world's equity markets, excluding Japan which is a law unto itself, are selling on about 12 times prospective earnings, which is in line with the average for the last five years. However, reference to average levels of valuation will not answer the question of whether a major bear market is beginning to take hold. Bear markets tend to be a response to shocks to the world economic system, such as a sharp rise in oil prices, which dramatically change the outlook for share prices. The big question worrying the world's equity markets is whether the US has done enough to solve its trade deficit, and halt the dollar's slide, or whether the problems will only be solved by the onset of a major US recession, the effects of which will ripple around the world. The answer, which will not be available for several months, will determine whether we are heading for a *major bear market.*

SECTION III

FINANCIAL TIMES SURVEY

Although there are signs that Britain is within reach of a sustained turnaround in industrial performance, issues such as the fall in equity markets, anxieties about the dollar and the strength of sterling are tempering optimism in the short term, as **Terry Dodsworth, Industrial Editor,** reports here.



UK Industrial Prospects

Output rising strongly

BRITISH INDUSTRY is today reaping the fruits of the bleak period of recession and reconstruction in the early 1980s. The slump in demand that dominated the economy at that time has turned into steady growth; and this expansion, coupled with the more cost-conscious and tightly-controlled approach adopted by many companies after the years of blood-letting, have proved a potent mix for the corporate sector.

Reviewing this happy state of affairs a few weeks ago, Mr John Butcher, the Industry Minister, said that Britain was within reach of a dramatic, sustained turnaround in its industrial performance. British companies had radically improved their rate of return on capital employed, he said, and were outpacing their competitors in productivity improvements.

"What you are looking at is the early stages of what could become an economic miracle of the type achieved in the Federal Republic of Germany in the 1960s."

Mr Butcher's optimism is built on some impressive corporate statistics. Profits in the UK today are high in absolute terms, and all the more so since they are not being eroded by the excessive inflation of a few years ago.

In the half year to June, the quoted companies in the corporate model of the UK run by brokers Hoare Govett showed a 27 per cent increase in pre-tax profits, and the forecast is for a 24 per cent increase in the year as a whole. This rise has pushed up the return on capital generated by British companies to an average of 23 per cent, an increase of 3 percentage points.

Balance sheets are also putting on weight, helped by the influx of cash which these profits have generated. By the end of the year, the UK corporate sector's net gearing - the proportion of debt to equity - will have fallen to well under 10 per cent, a highly conservative level where companies might be said to be under-borrowed.

"If UK companies wanted to gear up to the 30 per cent level they were last at in 1981, they could raise £30bn worth of debt," says Mr Bob Cowell, of Hoare Govett.

Underpinning the clattering cash registers is a boom in production which has crept up almost unnoticed in the last year. Many British companies are working at, or very close to their notional capacity limits at present - so much so that fears of new inflationary pressures in the economy began to emerge in the summer.

"We are working a four-shift system seven days a week, and we are investing in new capacity," says Mr Tony Wright, chief executive of Howson Algraphy, the Leeds-based lithographic plate manufacturer which belongs to the Vickers group.

Because of the deep capacity cuts of a few years ago, manufacturing output has still not reached the absolute levels achieved in 1979, despite the current boom. But the factory closures, and the high level of unemployment that flowed from them, has had a positive secondary effect in terms of productivity: as output rises strongly with fewer people on the factory floor, the UK has risen near to the top of the league in productivity increase in the OECD area.

This has been achieved, moreover, in an atmosphere of uncharacteristic calm on the industrial relations front. Strikes are now running close to their lowest level for 50 years, while the number of days lost through industrial disputes has dropped to the level of the early 1960s.

So much for the good news. Not all the developments on the industrial front, however, fall quite into this sunny picture. Indeed, some rather fierce storm clouds have rolled over the horizon in the last few weeks.

The main short-term issues confronting UK companies were the ones which were underscored in the sudden plunge in equity markets around the world at the end of October. These share prices falls have raised a mixture of uncertainties - questions not only about the sustainability of present equity markets, but also anxieties about the dollar and the strength of the US economy. Some of the possible effects on companies are:

■ Many financial groups will be under unfamiliar pressure after a period of high profitability as they cope with more difficult trading conditions.

■ Aggressive takeover-oriented companies will find acquisitions more difficult to finance, even if the price of their targets has fallen.

■ Companies that have invested heavily in the US over the last few years will see a *decline in their translated dollar* earnings because of the fall in the US currency.

■ Growth in the US profits of British companies is likely to slacken off, quite apart from the currency issue, because of slowing demand in the US. Some economists argue that the effect of the stock market decline on the overall wealth of US citizens could have quite a serious impact on sales next year.

Not all parts of the UK corporate sector are likely to be affected by these problems. Construction, for example, which has been one of the strongest growth areas this year, is set to enjoy another 12 months of healthy activity in the UK in 1988.

But even in insulated areas like this, the possibility of further share price falls is unsettling; and for the economy as a whole it raises an issue which goes to the heart of Britain's ability to compete in the future.

This is the question of the confidence to invest in longer-term growth. One of the most glaring weaknesses in British companies at present lies in the low level of expenditure on plant and equipment over the recent past. The capacity constraints that have emerged this year appear to have done little as yet to change the environment: indeed, forecasts of quite modest growth in spending next year are now being trimmed back to between 1.5 per cent and 3 per cent for manufacturing companies.

As one illustration of the problem, machine tool sales in the UK have actually fallen this year. Foreign machine tool producers report that a few leading companies are at last beginning to show an interest in larger-scale orders, but they also say they are shocked by the age of the plant in many British factories.

Significant expansion programmes in British companies are few and far between - projects such as the new plant for Clark's shoes, or Plessey's recently-opened Roborough semiconductor facility, stand out almost for their rarity value.

In many areas, therefore, it is difficult to escape the conclusion that the rising sales of British goods derive less from investment in new products than from competitive prices, stemming from relatively low wages, and a currency level which, until recently at least, has been competitively priced.

The UK Government's strategy for dealing with this investment problem - the present, hands-off administration refuses to talk about a "policy" - seems to be composed of three separate elements:

■ First of all, it strongly supports the establishment of foreign companies in the UK, encouraging the wide range of business that have flocked in with new activities in machine tools, motor cars, consumer electronics and machine tools.

■ Second, it hopes that these new overseas competitors will serve as role models to British companies, bringing with them some of the best practices from their own countries. These can feed through into the supplier industries and their direct UK competitors, as well as into UK company management as individuals trained by the multinationals move to British groups.

■ Third, the Government is aiming to provide a more stable economic environment that will give companies the assurance that they can make meaningful plans for the future. This is the most tricky element of the policy, since many elements of the trading system fall outside the control of any individual Government.

Nothing illustrates this conundrum better than the recent stock market furore. Are companies that might have been thinking of splashing out on new plant to step up their efforts in the US and recapture some of their market share in Britain, now likely to pause? Is the steady rise in sterling against the dollar reviving uneasy memories of the squeeze that the high rate of the pound imposed in the early 1980s?

Some industrialists concede privately that these fears loom large in their thinking. For them, the reconstruction of UK industry that has gone on in the 1980s has still not moved up a gear into the drive for new products and services that will generate significant volume growth - and, at the same time, make a big impact on unemployment.

"My belief," says Mr Ronald Armstrong, head of the PERA consulting group, "is that, generally speaking, industrialists in this country are worried by fluctuations in financial parameters which they do not control. So if you have movements such as we have recently had in the stock market and in exchange rates, industry tends to back off and do nothing."

CONTENTS

□ *Statistics and charts used in this survey include those from the latest Cambridge Econometrics study: "Industry and the British Economy to the Year 2000," available from 21, St Andrews St., Cambridge, CB2 3AX.*

□ *FT graphics by Robert Hutchison and Leighton Morris; design by Frances Trowsdale; page one illustration by Grundy Northedge.*

Economic outlook

Harder now to bet against pessimists

UNCERTAINTY IS nothing new in the economic outlook. But as Britain enters what the Government hopes will be its seventh year of rising output, even the brashest economics pundits are hedging their bets.

The stock markets' crash, the turmoil on foreign exchange markets and a deteriorating trade balance have multiplied the usual question-marks over the sustainability of Britain's recent strong performance.

Official concerns, masked by a determined display of public confidence aimed at preventing business from "talking itself into a recession", are on two levels.

The first focuses on the possible impact on the economy of what has happened already even if financial markets now stabilise. The second, more worrying, is that the events of the last few months may be only a precursor to a much more longer period of market instability.

On the first count, the evidence so far is sketchy but relatively optimistic. Last year's sharp rise in economic output confounded the sceptics. A surge in productivity in manufacturing industry showed signs at least of reflecting a genuine improvement in the supply-side of the economy. Unemployment has fallen steeply.

Those published official statistics which cover the immediate aftermath of October's "Black Monday" point to a still-buoyant pace of expansion.

Looking forward, surveys by the Confederation of British Industry and other organisations suggest that industry remains confident that it can shrug off much of the impact of the steep fall in its stock market valuation.

Independent economists share the Treasury's optimism that the impact on consumer spending of the share price collapse - the so-called wealth effects - will be limited. The Government may have succeeded in widening share ownership, but direct holdings of equities are small when measured against the personal sector's overall wealth.

The Chancellor's decision to ratchet down interest rates to 8.5 per cent – their lowest level since 1984 – is designed to further underpin industrial and consumer confidence.

In particular, the aim is to ensure that the rise of more than 5 per cent in manufacturing output in 1987 is followed by a renewed burst of investment spending after the virtual stagnation of the past two years. Unless there is such an expansion of capacity, there is little confidence that the recent pace of expansion can be sustained without a significant revival of inflationary pressures and a still-sharper worsening in the trade balance.

Against that overall background, the consensus among City and other independent economists is that the economy is likely to expand by around 2.5 per cent in 1988 – markedly lower than the 4 per cent seen in 1987, but still above the average of most other leading industrial nations.

That assessment, however, depends crucially on the assumption that a further stock market crash, a tumbling dollar or the combination of both do not drive the world economy into recession.

It is not an assumption one can make with great confidence. The experience of the past two months suggests that the US Administration is willing to take considerable risks with the markets in the hope of avoiding a significant slowing in the US economy ahead of November's presidential elections.

With the monthly trade figures underlining the seemingly intractable nature of the huge US deficit and the parallel surpluses in Japan and West Germany, Washington is understandably hesitant about committing itself to a further period of dollar stability.

Industry remains confident that it can shrug off much of the impact of the steep fall in its stock market evaluation, according to recent surveys

Despite occasional panics on currency markets, the strategy of allowing a steady depreciation of the dollar has so far been relatively successful. If the nominal US deficit remains stubbornly high, there is positive evidence from the underlying pattern of trade flows that the position is steadily improving.

The threat, however, that a free fall in the US currency's value could yet trigger a sharp upturn in American interest rates and pull other industrialised nations into recession has not gone away; nor has the possibility that stock markets will lose patience with US efforts to reduce its budget deficit.

In parallel, the speed of the dollar's most recent decline risks reinforcing the damaging impact on industrial confidence of the stock markets' crash – particularly in Europe. Many British exporters to the US are already feeling the squeeze.

In an ideal world, the trade imbalances would be gradually reversed by a combination of US efforts to hold down domestic demand matched by expansionary measures in West Germany and Japan to take up the slack. The evidence since October, however, has been that co-operation in economic policymaking is at best fragile.

Even without further shocks, the Paris-based Organisation for Economic Co-operation and Development is forecasting that the pace of growth in Europe is likely to slow to less than 2 per cent in both this year and in 1989. West Germany's performance, crucial because of its healthy trading relative to the rest of Europe, is projected to be even worse.

The Chancellor has soma scope to insulate Britain from the impact of such a slowdown. The signs are that the public sector's finances in the 1987-88 financial year will show a surplus for the first time since the late 1960s.

That should leave him with ample scope for tax cuts in the March Budget. The City consensus is that he will have at least £3bn to spend in cutting both the basic and the higher rates of income tax.

The combination of tax cuts and buoyant growth in real incomes should at least underpin domestic demand in the economy, while lower interest rates and high corporate profits provide grounds for optimism on the investment outlook.

What is far less certain, however, is the extent to which Britain can continue to grow significantly faster than its major industrial partners without an alarming deterioration in its trade position.

The Treasury's forecast of a current account deficit of £3.5bn next year is widely regarded as both plausible and manageable in the context of Britain's large overseas investments.

It is far less certain, however, that financial markets will accept what many economists expect will be a rapid worsening in the deficit during the second half of 1988.

For much of 1987 the damaging impact on competitiveness of the traditional Achilles heel of Britain's economy – rapid growth in earnings – was offset by similarly rapid gains in productivity.

Those gains, however, are unlikely to be sustained at a similar pace in 1988 and, with no sign of any slowing in pay settlements, industry can expect a steady erosion of its competitiveness.

An obvious option for the Government would be to allow a renewed sterling depreciation against other European currencies, particularly the D-mark. On past experience, and despite official rhetoric on the Government's determination to hold the pound close to its present levels, such a devaluation looks inevitable.

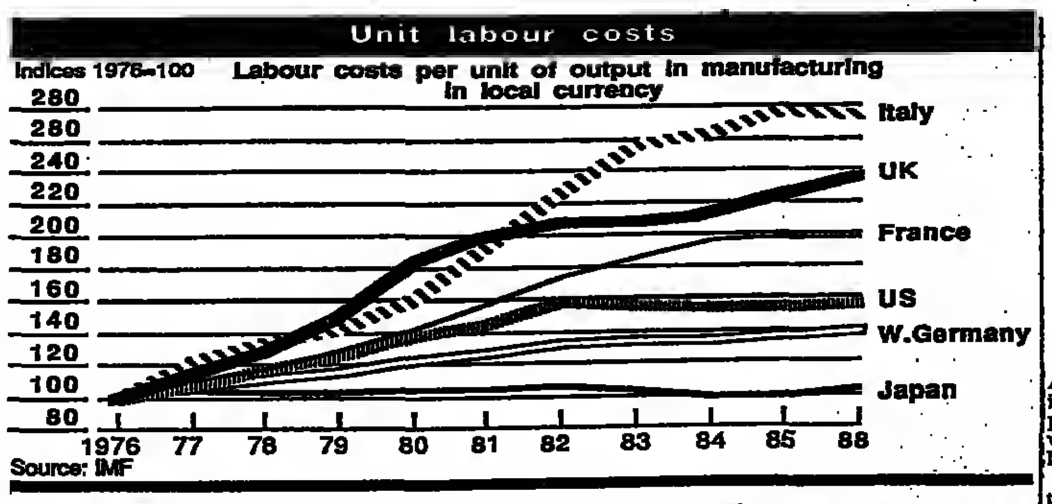
Any sizable sterling depreciation, however, is likely to rekindle inflation – a weakness in the economy which Mr Nigel Lawson, the Chancellor, has managed to control but not cure.

A growing number of City economists is therefore forecasting that, if economic output remains relatively buoyant, then by the second half of 1988 Mr Lawson will find himself having to raise interest rates significantly to hold down inflation. That in turn could leave unemployment still hovering at close to 3m.

The pessimists have been proved wrong before. But it is getting harder to bet against them.

Philip Stephens

Unit labour costs



Motor industry

Dollar weakness puts a spoke in the buoyancy

AT FIRST glance, the UK motor industry is entering 1988 well placed to continue a revival which gathered pace throughout last year.

Figures about to be released by the Society of Motor Manufacturers and Traders are expected to show that last year, for the first time ever, UK new car sales reached 2m units.

This compares with 1.89m in the previous record year of 1986 and represents a rise of more than 400,000 units from the trough of the early 1980s recession.

Seemingly, more encouraging still for the UK industry is that the figures will show the share of total sales taken by imports to be down by around five percentage points, to only just over half the total. Until a year or so ago, it was not uncommon for the importers' share to break through 60 per cent in some months.

Production has been rising sharply. Compared with fewer than 880,000 cars in 1982, output last year is expected to have risen to around 1.2m, an increase of nearly 40 per cent. This upward trend has been prompting some leading industry figures to proclaim that the UK industry is undergoing a "renaissance."

For example, Mr Sam Toy, former Ford of Britain chairman, was moved to predict, during his tenure of the SMMT presidency, that over the next two to three years UK car production could easily reach 1.5m units a year.

Investment in the UK car industry is also substantial – Ford's, for example, is currently running at about £300m a year. And in the middle of last month Nissan announced a forther £216m investment in its Sunderland, Tyre and Wear, car plant which will double the previously-announced target output in 1992 to 200,000 units a year by adding a second model range (a small hatchback).

Not least, car exports have reversed their long decline. *Government statistics to be pnblished* in a few weeks are likely to show that they reached around 235,000 units, up one-quarter on the 187,556 of 1986.

A closer examination shows, however, that the situation is not quite as buoyant as it might appear, and that much of the recovery is based on the not-too-reliable foundations of favourable exchange rates.

Thus, most of the market share gain by UK-built cars was accounted for by Ford and General Motors-owned Vauxhall sourcing more of their sales from UK plants, largely to mitigate the effects of the soaring D-mark. The switch was convenient in more ways than one: political pressure, particularly on GM, for further signs of their good "corporate citizenship" by building more cars in Britain had in any case been growing for several years.

Another portion of the UK-built gain was simply a function of the way the SMMT compiles its statistics. Thus an apparent drop of about 1.5 percentage points in Japanese importers' share was the result of counting the 29,000 Bluebird saloons built at Sunderland as "British", although they will not qualify for the term in the UK Government's eyes until they reach a minimum "local", or EC, content later this month.

Matters are also put into perspective by the fact that the only UK-owned volume cars producer, the state's Rover Group, lost market share last year.

The increase in exports looks modest, too, when set against the fact that there was a £2.88bn balance of payments deficit in 1986, although the signs are that the statistics for last year will show a small improvement.

Finally, the production improvement about which so much enthusiasm is being generated compares with a peak level of 1.92m in 1972.

Just to complete the gloomy side of the picture, the bulk of investment in the industry is being made by foreign-owned companies reaching their strategic decisions outside the UK.

Against this background, prospects for 1988 have been rendered uncertain by both the stock markets collapse and the seemingly remorseless fall of the dollar. The latter is of particular concern to exports-orientated Jaguar as well as to Rover, which is still in its first year of resumed shipments of Rover cars and Range Rovers to the US.

Even without these latest uncertainties, however, the UK industry has been virtually unanimous in its view that UK sales this year would fall back from 1987's record levels.

The only question is: By how much? Some forecasts made in the immediate wake of the markets crash and suggesting falls of nearly 250,000 units, now look unduly pessimistic given that manufacturers so far claim to have been able to detect no warning signs of reduced business confidence adversely affecting *sales to fleet or private customers.*

A more likely outcome – at least in the absence of a full-scale world recession triggered by the economic problems of the US – is, suggests the Economist Intelligence Unit, a market of 1.85m, while DRI Europe is projecting 1.82m.

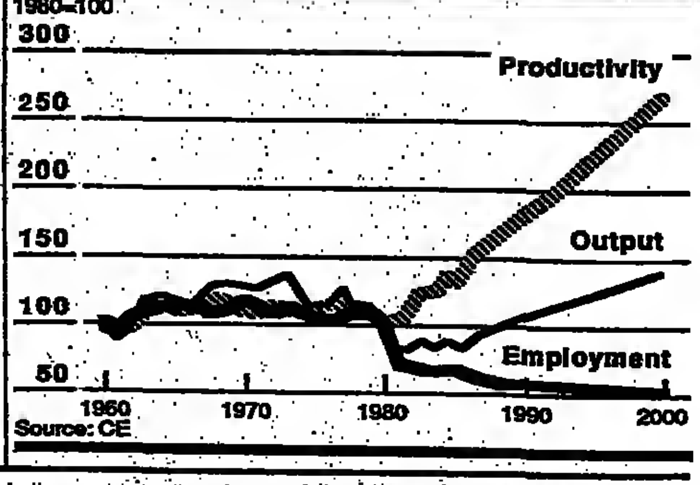
These forecasts take into account the fact that company profits are continuing to increase and projections of economic growth so far are being only marginally reduced, while there are other positive factors, such as falling unemployment and lower interest rates.

However, there are fears that if sales do drop to the predicted level or below, there could well be a new flaring up of the car discounting wars, of which the UK has been relatively free over the past two months.

That would be particularly unwelcoma to Rover and Vauxhall.

John Griffiths

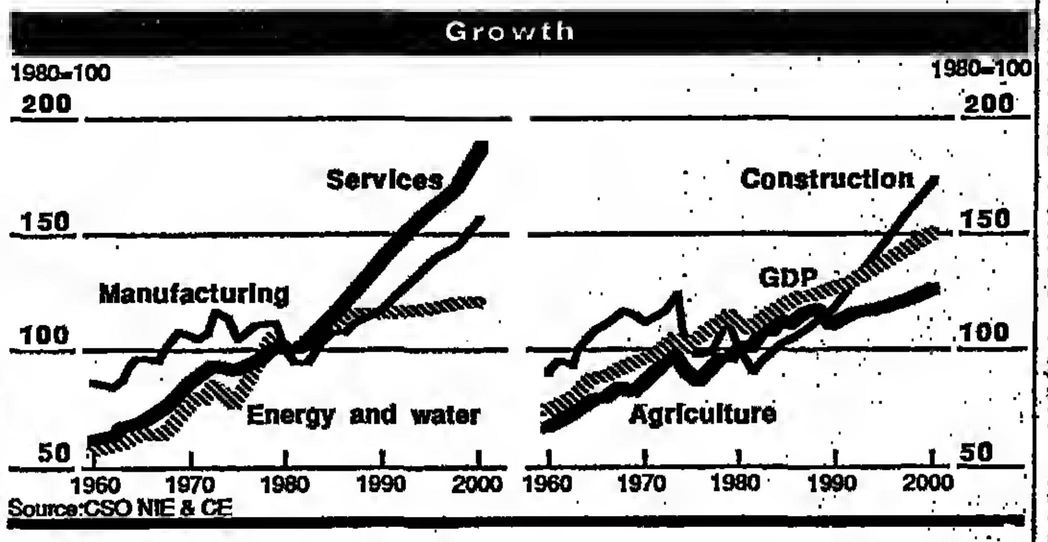
Motor vehicles



Industrial investment

Stock market's fall upsets calculations

Growth



IT IS not hard to find examples of significant new greenfield investment projects launched in the UK over the last year or two. But it is a great deal more difficult to come across schemes that have their parentage in a British-owned company. Many of the most ambitious outlays on new plant have been by foreign companies - *manufacturers such as* Nissan, Yamazaki, Compaq, NEC, LSI Logic, AT&T/Philips, and Digital Equipment, to name just a few.

This pattern of investment tells a story. For a start, it indicates a feature of industry which is common to most developed countries today - the increasing internationalisation of production by companies that feel they have to invest overseas. In the US and Europe, there has been a similar drive by foreigners to put up plants, some of them owned by UK companies which argue that the money is best spent there than at home. Even in Japan, a few Western companies are now finding opportunities to set up shop.

Several of these investments also reflect the imposition of trade barriers of one kind or another. Japanese vehicle manufacturers, such as Nissan for example, are facing formal or voluntary quotas in many European markets; semiconductor companies like NEC of Japan, the largest integrated circuit manufacturer in the world, must pay import duties of around 12 per cent in the European Community; and many Japanese component producers are setting up in the UK to protect their sales to domestic equipment manufacturers which have established local manufacturing sites.

In addition, some supplier companies believe that they need to invest locally to be close to the equipment producers that use their goods. Component companies *particularly fall into this* category, because the development of new products often depends on a dialogue between them and the users. There is a similar pressure on information technology companies: they often need to invest in locally-originated software development, if not hardware, because of the particular demands of the local market.

Above all, however, the preponderance of foreign greenfield investors underscores the focus of UK industry itself on priorities other than outright increases in capacity.

There have, of course, been some expansionary moves: Jaguar's expenditure on new flexible assembly lines and paintshop additions, for instance, is intended to take capacity from around 47,000 to 80,000 cars a year; and Plessey has this year opened its new Roborough semiconductor facility, the most ambitious project of its kind from a British company for years. But the past few years have been dominated by two issues - capacity reductions in some of the more traditional sectors of manufacturing, combined with a crash modernisation programme which has stretched across the whole of industry.

Capital investment, therefore, has been channelled increasingly into labour-saving machinery. The new manufacturing lines that have been installed have gone mainly into refurbishing old plants - sometimes at the expense of closures because modern machinery often requires less *room* in which to *operate*. Even new plants have not always meant a significant addition to capacity: the opening of the BICC fibre optics cable facility at Whiston, near Liverpool, followed extensive rationalisation of its old coaxial cable operations.

UK companies have, at the same time, been putting a great deal of emphasis on expansion overseas, particularly in the US, where acquisitions are running at around $15bn this year against $13bn in 1986 - both of them easily record figures. The stock market crash appears to have put a damper on this trend for the time being, but in the past two years it has undoubtedly deflected cash from investment in organic growth to expansion through acquisition.

This acquisition of overseas assets highlights questions about the trend in UK investment that have become increasingly insistent over the past few years. Following the shake-out of the early 1980s, do British manufacturing companies now have the confidence to try to expand their home base aggressively? Will they step up capacity enough not only to stop the erosion of their market shares, but also begin to win some back?

Capital investment in the manufacturing sector has charted an extremely variable course over the past 10 years. After the recessionary collapse in the three years from 1981 to 1983, it picked up sharply in 1984 and 1985, rising by 18 and 15 per cent respectively. But this was a somewhat artificial increase, driven by the withdrawal of investment incentives and the need to push through programmes before these tax breaks were cut off.

In 1986, when this stimulus was withdrawn, investment in manufacturing industry declined by about 5 per cent to £7.1bn, calculated at 1980 prices. Last year, the trend was upwards once again, but was unlikely to reach 3 per cent, and even if it did, total manufacturing investment in real terms will still be well below the peak year of 1979, when it hit £8.2bn.

Yet, on the face of it, there is considerable incentive for companies to think of capacity additions at present. For several months, many industrial companies have been working close to their theoretical capacity limits. Indeed, fears that the economy might be driven into inflationary overheating - one of the considerations behind the increase in interest rates in August - were *partly based on this high rate of* industrial output.

Earlier last year, expectations that investment would follow this strong trend in production, were high. The Department of Trade and Industry's investment intentions survey in the autumn would be roughly comparable to the 1987 figure. – suggesting a rise of around 8 per cent in total investment (including manufacturing, construction, distribution and selected services). In the manufacturing sector itself, however, the report forecast a strong increase in capital expenditure intentions of around 11 per cent on tha previous year.

These calculations, however, have been thrown into confusion by the sharp fall in the stock market and the suggestions that this could have a follow-on effect in dampening economic expansion. Forecasters are now rethinking their appraisal of 1988, leaving no clear consensus on growth or investment.

Some City economists, for example, believe that the knock suffered by the financial markets is bound to spill over into reduced expectations in industry, and a consequent decline in the willingness to invest.

Mr Bill Martin, an economist at the Phillips and Drew broking group, for example, says that his forecasts have come down to a growth of around 1.5 per cent in manufacturing investment this year, approximately half of last year's expectations. He does not believe that the rise in the cost of equity funds - the consequence of the fall in the market - will be a significant consideration in this decline in expenditure, partly because lower interest rates are making debt financing more attractive. But he expects manufacturers to be worried by doubts over the level of demand.

Other City economists are more bullish. James Capel, *for* instance, is talking about a 3 per cent increase in *manufacturing* capital expenditure in 1988; and some analysts believe that, while it is too early to tell how industry is reacting to the stock market fall, the fact that many companies are reappraising their investment programmes will mean some slowdown later in the year because of hold-ups in the approval process for spending.

"By reviewing their investment programmes they are bound to cause some delays in expenditure, probably towards the end of the year," says Mr Peter Deighton, of Hoare Govett.

Terry Dodsworth

Martin Dickson looks at the takeover trends

Cash is king in a crash

THE TAKEOVER wave which has restructured large parts of British industry over the past few years goes into 1988 with its characteristics undergoing major changes.

The stock market crash of last October has had a dramatic effect on the types of company involved, the financing of deals and takeover tactics.

It also produced an initial short, sharp drop in the volume of takeover activity, though the remarkable revival of bids and strategic stake building in early December demonstrated that the takeover wave is far from exhausted.

That said, the type of predators involved has certainly changed since October. And while the flow of deals is strong now, the coming year may well see a drop in takeover activity – in value, if not necessarily in volume terms – compared to the height of the boom from late 1985 to 1987.

Just what prompted the takeover wave of the 1980s has long been a subject of academic speculation. Factors which seem to have contributed include the aftermath of the recession at the start of the decade, which left those companies which had survived with stronger management and stronger balance sheets, better able to set out on the acquisition trail.

And this will have been reinforced by the strong bull market in shares, allowing companies on high price/earnings ratios to issue floods of paper to make acquisitions. Fashion, too, will have played a role, not least because managers observed that companies making many acquisitions got themselves into a virtuous circle: they achieved a reputation in the City for dynamism, which improved their rating, which in turn made them better able to issue paper.

Even before October, the wave had seen some major character changes. In 1985 and 1986, the focus was firmly on bids for other UK companies. No sectors were immune, though some of the largest takeovers were concentrated in the retailing, food and drinks sectors. And the contested bid was all the fashion. It was glamorous to be a merchant bank adviser, rushing from battle to battle, or an arbitrageur, amassing stakes which could decide a company's fate.

All that changed just over a year ago when Department of Trade inspectors entered the headquarters of Guinness to begin their long investigation into alleged share-rigging during the takeover battle for Distillers. Even before the Guinness affair, it had seemed somewhat harder for predators to win contested bids. After Guinness, it was certainly so, and gradually, over the first nine months of 1987, contested UK bids petered out.

Agreed deals did go on, and there was a sudden spurt in the value of bids for American companies, culminating in the extraordinarily cheeky, yet successful, offers by two small British companies – WPP and Blue Arrow – for the much larger J. Walter Thompson advertising group and Manpower, the staff agency.

But October's crash has changed all that. Former high-flying companies with little asset backing have seen their ratings slashed relative to the market, severely restricting their ability to issue paper to buy businesses.

One of the most startling examples of the change is the fate of Abaco, a professional services group which, with a string of rapid, paper-financed acquisitions, was one of the market's favourites before the crash. But then its share price plunged to the point where it fell victim to British & Commonwealth Holdings, which already held a 27.5 per cent stake in the group and with which it had close relations. An agreed £189m bid was launched.

Meanwhile, with the dollar plunging and fears of recession in America, buying companies in the US is suddenly out of fashion. Another pre-crash high flier, the home furnishings group Coloroll, announced very shortly after Black Monday that it was abandoning its plans for a rapid expansion by acquisition in North America, to concentrate on organic growth in its core British activities.

The type of company most likely to be on the acquisition trail in 1988 is therefore very different to that pre-crash. First, it will tend to be cash-rich, since issuing paper is that much more difficult in a bear market.

Second, worthy but rather dull companies, which found themselves outbid for acquisitions in

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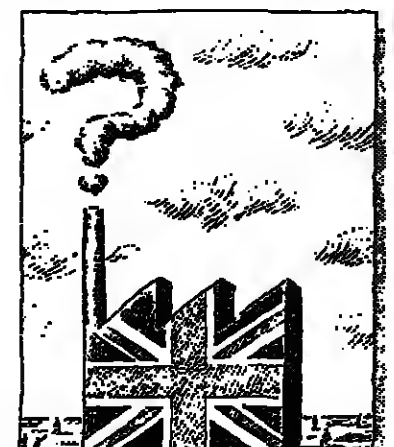
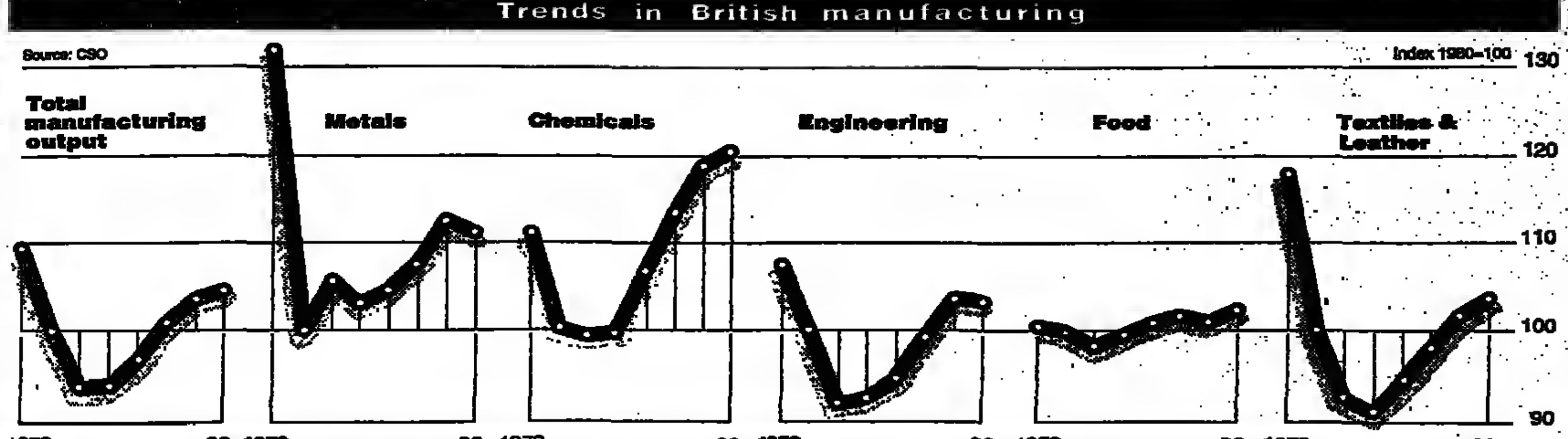
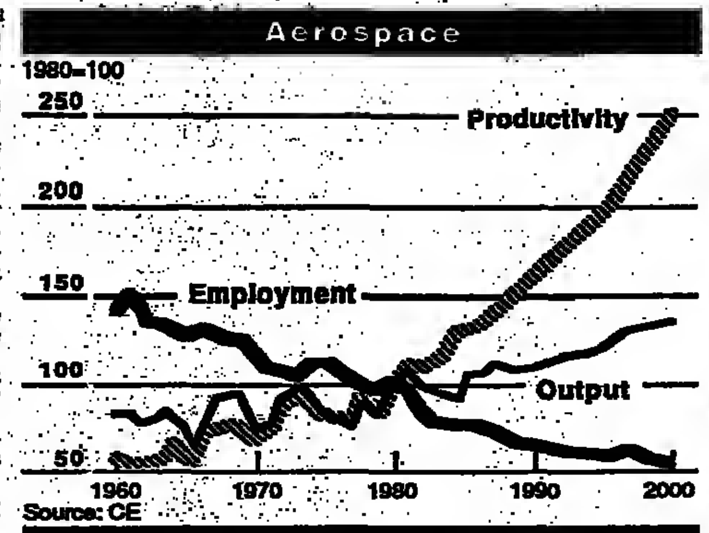


Trends in British manufacturing



Aerospace industry enters 1988 with strong trade balance

Upward trend continues



THE UK AEROSPACE industry moves into 1988 on a strong note, with exports running at a high level, a strong positive trade balance and order backlogs well in excess of £20bn.

As a result, the coming year is likely to be more one of consolidation than of innovation, with companies stepping up their marketing activities to win further sales overseas while also fulfilling the substantial export orders already won.

With competition across the entire spectrum of aerospace activity now intensifying worldwide, vigorous campaigns to cut costs and improve efficiency have already been introduced. But that will need to be sustained and even stepped up this year.

For the first half of 1987, according to figures prepared by the Society of British Aerospace Companies, the industry as whole achieved exports of £2.69bn, so that after taking account of imports of £1.7bn, there was a positive trade balance of close to £1bn.

During the second half of the year, preliminary indications are that the upward trend in exports continued, so that for 1987 as a whole, the industry expects record results, with turnover well up, exports well in excess of the £4.74bn achieved in 1986, and s much increased positive trade balance.

But although the emphasis in 1988 will be on consolidation, there are still some major new projects awaiting launch, which are considered vital for the industry's long-term prosperity.

These include the long-awaited formal go-ahead for full-scale development and production of ths multi-billion pound European Fighter Aircraft (EFA), in conjunction with West Germany, Italy and Spain, which will fill the production capacity left vacant as quantity production of the existing Tornado multi-role combat aircraft runs down in the early to mid-1990s.

Eventually, more than 800 EFAs will be built for the four participating countries, without taking into account the possibility of exports, so that this programme will fill the factories well into the next century, sustaining employment and enhancing progress in advanced technology, especially in such areas as computer aided design and manufacture; in the development of new materials, such as aluminium lithium; and in new production techniques, such as diffusion bonding and superplastic forming.

In aero-engines, apart from its work on the EJ-200 military engine for the EFA, Rolls-Royce is expected soon formally to launch development of its projected new "big-thrust" civil engine, the RB-211-524L (formerly called the RB-211-700), which is designed to provide power outputs up to 65,000 lb thrust initially, and beyond to 70,000 lb, if required.

Although the development cost will be high, this engine is essential if Rolls-Royce is to remain in the "big league" of world aero-engine builders, in competition with its US rivals General Electric with improved versions of its CF6-80-C2 and Pratt & Whitney with improved models of its PW-4000.

Such high-thrust engines will be required for several forthcoming new airliners, including the short-to-medium range high-density twin-engined Airbus A-330, the medium-to-long range McDonnell Douglas MD-11 tri-jet, and improved models of the Boeing 767 medium-range twin-engined airliner.

In addition to these ventures, the industry will be pressing ahead with other new programmes already formally launched but still in their early development stages.

In commercial aviation, these projects include the new Airbus twin-engined short-to-medium range A-330, and the four-engined long-range A-340 airliners, for both of which British Aerospace will be building the wings.

BAe will also be pressing ahead with its own new ventures, including the 64-seater Advanced Turbo-prop (ATP) twin turbo-propeller airliner, and the improved BAe Jetstream 31, a 19-seater airliner, while also building up production on the Type 146 four-engined regional jet airliner and its "Quiet Trader" variant, as well as the Type 125-800 executive jet, to meet the substantial orders won for all these aircraft during 1987.

In the helicopter field, Westland Helicopters of Yeovil, in conjunction with Agusta of Italy, will be accelerating the development and initial production of the EH-101 multi-role helicopter, of which a military variant for anti-submarine warfare is planned, with a commercial airliner variant also envisaged.

One area about which there is considerable concern is that of space activity, where although the UK industry has shown its technical competence, problems over the future level of Government financial support threaten to whittle down that capability through the rest of this century.

The Government has declined to increase the level of its contribution to the European Space Agency, arguing that the latest developments planned for the advanced Ariane 5 launcher, the development of the manned spacecraft Hermes, and participation in the Columbus contribution to the US projected manned space station, are too ambitious and expensive. Nevertheless, the member-countries of the ESA voted in the Hague in November to go ahead without UK support.

At the same time, the Government has been arguing strongly that commercial industry ought to finance more of the space programme instead of relying on increased state support.

Whether companies in the UK aerospace industry will increase their funding of space activities to enable them to share in the advanced ESA programmes, even on a private venture basis, remains uncertain, although it seems likely that where there are possibilities of commercial returns, for example in satellite development, some companies may be prepared to do so.

The industry can remember when the Government pulled out of the emerging European Airbus venture many years ago, and it was only because Hawker-Siddeley Aviation retained a private venture presence in it that the UK was able eventually to get back into what has now become the third largest civil aircraft manufacturing venture in the world after Boeing and McDonnell Douglas of the US.

But clearly the UK industry cannot afford the large sums that would be involved, even on an international collaborative basis, on major future space programmes into the next century.

One area of concern as a result of that approach is the future long-term development of Hotol, the revolutionary "aerospace plane", which is intended to take off and land like a conventional aeroplane while being able to soar into low-earth orbit on space missions.

So far, the detailed feasibility studies into Hotol have been jointly funded by the industry, through British Aerospace and Rolls-Royce, and by the UK Government through the Department of Trade.

The big question is what is going to happen to Hotol in the long term. Will its development continue to enjoy some measure of UK Government support, either alone or in conjunction with other countries, or will this promising venture be allowed to die for lack of funding?

There is some sympathy in industrial circles for the Government's desire to avoid writing blank cheques for all future space developments, and some also agree that the manned spaceflight ventures of the European Space Agency substantially repeat what the US has already done with the Space Shuttle.

Nevertheless, many in the industry believe that some other ventures will be well worth continuing, at least for the immediate future until their overall feasibility can be established to the point where serious consideration can be given to them being continued on an international collaborative basis.

This especially includes Hotol, which could be the passport into extensive collaboration in the future with the US on such ventures as aerospace planes in the broadest sense, even if the UK stays out of, or contributes in low volume to, the other ambitious ventures such as Ariane 5, Hermes and the Columbus element of the US manned space station.

The survival of much of the advanced technological development that accrues from space research and which is directly and immediately applicable across the entire spectrum of aerospace activity depends on some resolution of this issue over the next few months.

Resolution of the space funding issue, therefore, is not only relevant to projects such as Hotol, and to the future of the UK's space effort, but also to the future technological thrust of much of the aerospace industry.

Michael Donne

Transport industry

A tunnel of opportunities

THE ATTENTION of much of the transport industry will be centred on the Channel Tunnel in the coming year, as operators and manufacturers attempt to gauge how they may be affected.

There will also be some interest in the probable flotation of National Freight Corporation, the biggest road transport operator, and TIP Europe, the market leader in trailer rental.

Among other issues, private express mail and parcels companies will be waiting for a decision from the Government on the future of the Post Office monopoly of non-premium letters.

There will also be lessons to be learnt from the public inquiry into the King's Cross tube disaster, which is expected to reconvene in February.

As far as the Channel Tunnel is concerned, attention is beginning to switch from the financing of the project to construction and the purchase of track, signalling and rolling stock.

This opens up major opportunities for British railway equipment manufacturers, though most contracts will probably be awarded to consortia including French and possibly Belgian partners.

The initial contracts, because of the long lead times involved, will be for the two distinct kinds of passenger rolling stock required.

Tenders are expected to be issued in the summer for the construction of the shuttle trains which will carry vehicles and their passengers between the tunnel portals on either side of the Channel.

Details of the specifications for these trains are still being drawn up by Transmanche-Link, the contractor building and equipping the tunnel for Eurotunnel, which is financing the project and will operate the shuttle trains.

TML is believed to have allocated around £160m for railway equipment, including rolling stock, and loose consortia have already been formed with a view to winning the contract.

GEC Transportation Projects, for instance, is known to have had talks with Alsthom, the major French manufacturer, and British Rail Engineering Ltd (Brel) the equipment subsidiary of the British Railways Board.

Bidding is more advanced for the rather bigger contract to supply the through trains which will carry passengers between London, Paris and Brussels.

This contract, which is worth around £400m, is almost certain to go to an Anglo-French-Belgian consortium including GEC, Brel, Brush Electrical Machines and Metro-Cammell from the UK.

This consortium was formed after the issue of specifications by British Rail, SNCF French Railways and SNCB Belgian Railways, which will award the contract jointly. So far, it is the only contender.

The position of Brel in the consortium may be slightly complicated by the Government's plans to sell the company to the *private sector during the year.*

The most likely purchaser is a management buy-out team, however, which would mean that the company would still function as an independent member of the consortium.

Further Government proposals for privatisation of parts of BR may also be brought forward, but railway managers say they have been told this is unlikely, at least until Brel has been disposed of.

Among land transport operators, the employee shareholders of the National Freight Consortium will have to decide next month whether to go ahead this year with a stock market flotation, which is regarded as inevitable in the long term.

Sir Peter Thompson, chairman of NFC, has long favoured flotation, and a recent survey of staff attitudes indicated that there was likely to be sufficient support to go ahead this year.

NFC managers say sentiment has begun to swing against a flotation since the stock market crash in October, however, and this could influence the decision at the annual meeting.

TIP was unlucky enough to announce its plans shortly before the crash, and subsequently postponed the flotation in the hope that the markets would settle down.

Mr Jim Cleary, chairman of TIP, says the flotation will go ahead this year, partly in order to finance the company's re-equipment programme.

In the express delivery sector, TNT, the Australian-based multinational, is expected to keep up the pressure on the Government to relax or abolish the Post Office monopoly on letters costing less than £1.

TNT has made clear that it is ready to set up an alternative national distribution system to compete directly with the Post Office, but only on its own terms.

These would mean the creation of a duopoly, in which TNT would be a licensed competitor to the Post Office and virtually guaranteed a share of the market.

None of the private companies seeks a free-for-all, since they would be unable to compete with the Post Office's high volume operation.

TNT's proposals are opposed by the other private companies, however, and there is as yet no firm indication that the Government has any plans to loosen the monopoly now that the Post Office has reached a settlement with its unions.

Kevin Brown

Cash is king

from previous page

ratings, now find themselves better placed to pounce — particularly on second line stocks, where share-dealing has been illiquid since Black Monday.

All this said, mid-December brought forth a bid which defies most of these trends: Barker & Dobson, the retailer and sweet manufacturer, launched an extraordinary £2bn bid for the much larger Dee Corporation, the supermarkets business. The bid was partly in shares with a £1.25bn cash element underpinned by credit lines from a group of international banks.

The more general trend post-Black Monday was underlined by some of the bids launched in early December. Sears, the large retailing group which takes in Selfridges, the British Shoe Corporation and William Hill, the bookmaker, had for years been surrounded by bid speculation and was regarded as one of the less exciting companies in the sector. Post-crash, however, analysts began re-discovering its virtues as a defensive stock (even though shoes is a mature market, everyone has to go on buying footwear).

Last month, after Australian entrepreneur Robert Holmes a Court sold his 8.5 per cent stake in Sears to the Egyptian Al-Fayed family, thus reducing the chances of a bid, Sears itself went on the offensive, launching a £430m hostile offer for the Freemans mail order business.

Sears' action underlines another feature of the post-crash environment — the revival of the hostile takeover bid. This is often accompanied by dawn raids on a target's shares, designed to give the predator a quick bid platform. The aggressors are hoping that institutional investors who, in a rising market could afford to turn down hostile offers, will be much more willing to accept cash now the market is so illiquid.

Still, institutional investors have fresh in their memories the prices at which target companies' shares were changing hands before October. And some predators are known to feel it will be worth their while waiting for several more months before pouncing, giving the market more time to adjust to more modest share price levels.

UK INDUSTRIAL PROSPECTS 4

Steel

On the threshold of privatisation

AFTER TWO years of being off centre stage, the UK steel industry is back in the spotlight. It is going to stay there this year.

Legislation due in the first half of 1988 for the privatisation of the British Steel Corporation — pencilled in for 1989 or at the end of this year if it can be squeezed in — ensures that.

But that is just the most visible of a series of issues in the metals industry which have implications for large swathes of British manufacturing.

For one thing, the ability of private sector steelmakers as well as the corporation to maintain their profits growth of last year will be closely watched.

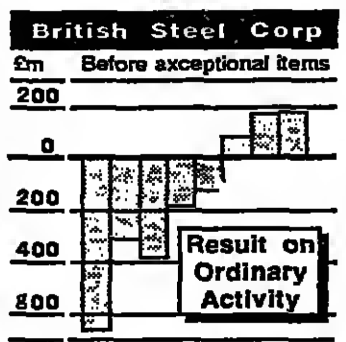
This will be particularly so for Allied Steel and Wire, the Cardiff-based rod and wire producer and one of the four main Phoenix companies set up during the 1980s in the Government-inspired programme to rationalise the British steel industry.

Allied was sold at the end of last year for £181m to a consortium of City institutions and the management has started out on the road to a Stock Exchange listing.

Most private sector companies are in profit, and appear to be in a healthier state than for several years. Most of them believe this year will be fairly good to them with a steady improvement in sales.

But the British Independent Steel Producers Association's annual meeting at the end of 1987 was marked by some stinging attacks on energy ministers for electricity pricing and the damage new tariffs might inflict on profits.

The independents also rely on the UK market for about 80 per cent of sales on average. At the moment, the UK market is pretty buoyant, but a sudden and unexpected downturn will not help anyone.



One trend which will almost certainly continue through this year is the reshuffling and partial restructuring that has been underway in what might be viewed as periphery areas of the metals industry.

This has affected the steel stockholding business, scrap supply, foundries and some of the special steel making sectors.

A report produced last year on training in the British foundry industry reached some gruesome conclusions about the damage that long-term training deficiencies could have on the competitive position of this already shrunken sector.

Ten years ago, the UK foundry industry employed 130,000, including 6,000 trainees. By 1986 it was down to 60,000 but with only 750 trainees.

The problems of the foundry sector manifest themselves in a number of sales and closures last year. Among these, Triplex acquired F H Lloyd, and Eisenwerk Brueh bought a Rover foundry in the West Midlands while another Rover foundry closed, as did the Parker foundry in Derby.

The scrap industry saw one of the most significant pieces of restructuring in years with the sale of 600 Group's Cohen business, the biggest in the sector, to Sheppards.

That industry is gradually being reshaped into one where a few large companies now have a dominant influence. More, but much smaller-scale reshuffling is likely this year.

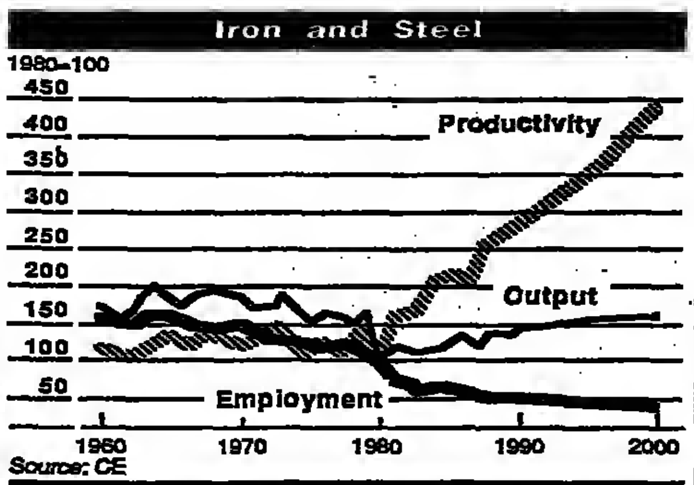
Scrap companies will also have to contend as usual with the volatility of the scrap price. That volatility is unlikely to be so marked, though, as last year when the price rose 40 per cent between April and November.

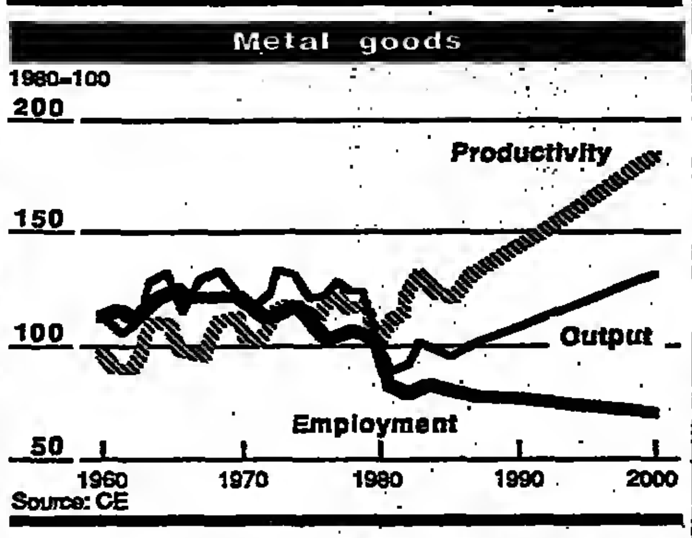
A cluster of small shifts in the ownership pattern of steel stockholding continued to change the face of that sector and more of that is expected.

The British Steel Corporation has just 15 per cent of UK stockholding and has given notice that it will be increasing this share. This will only be done after privatisation, however. At the moment, the corporation has its hands tied by the Government though it has been buying up stockholding businesses in Europe.

There was also some small-scale realignment of the private steel sector last year. Though this was small beer compared with the huge rationalisation and reorganisation programmes during the early and mid 1980s, there could be more of it in 1988.

Last year, the changes include further expansion by Glynwed in bright bar, tube and special steels, and the purchase of the special steels subsidiary of Triplex by United Engineering Steels, the biggest private sector steel company.





The overall picture for UK steelmaking does not look too bad at the moment. This is a far cry from the nightmares of a few years ago and, to some extent, compares favourably with the groggy condition of steel industries in much of Britain's biggest continental competitors.

The climate will obviously be partially governed by what remains of EC quota controls and the way the French, Italian and West German steel industries restructure. The health of UK manufacturing and the world economy, especially that of the US, are vital factors in maintaining steel profits and at the moment things look reasonable on that score.

A lot about the way that British Steel will be privatised is already known. It will be sold as one unit through a full flotation. However, apart from exact timing, it is still to be decided whether the Government will sell off all its stake in one go or have two bites at it.

Nick Garnett

Telecommunications

A year when excuses run out for BT

THIS YEAR will be decisive for large swathes of Britain's telecommunications industry. By the end of the year, after a period of almost constant upheaval, the shape in which the industry will enter the next decade should be a lot clearer.

The question overhanging most other developments will be whether British Telecom can succeed in putting behind it a year it would prefer to forget.

The company whose privatisation spearheaded the revolution in British telecommunications has little more than the next 12 months to reverse the disastrous slump in public confidence which it experienced in 1987.

Last year, BT had excuses enough for its troubles — industrial action by its engineers early on and the winter storms which disrupted the South. But this will be the year in which the excuses run out. If it fails to get its act together, the regulatory regime due to be in place by the beginning of the 1990s is likely to be loaded against it.

BT's top management team, under Mr Iain Vallance, the controversial choice as the new chairman, is fully aware that getting the quality of service right is the overwhelming priority. It will be under constant pressure to do just that from the Office of Telecommunications, the industry's regulatory body, which itself received some of the spray from the deluge of criticism which drowned BT in the summer.

BT has already halted its programme of job reduction in a bid to concentrate all available staff on quality improvement. Under pressure from Oftel, it has announced service targets some of which it is still well short of: by March, 90 per cent of callboxes are to be working at any time; by April, calls to the operator, including directory inquiries, should be answered within 15 seconds; by March 1989, faults interrupting business lines should be cleared within five hours, faults on residential lines are to be cleared within one day and faults which do not interrupt service are to be dealt with within three days.

While BT is struggling to recover lost ground, Mercury Communications, its fledgling rival, looks as though it is about to take flight. Mr Gordon Owen, Mercury's managing director, predicts that 1988 will be "the year of revenue and profit growth."

By the end of March, Mercury will have committed about £500m to its drive to build an alternative telephone network, a project which marks Britain out from all other European countries. Mr Owen says that 1988-89 will see Mercury moving into solid profitability and passing the £100m turnover mark.

But perhaps Mercury's greatest test lies not in generating revenues from its large business customers, whom it has targetted for its earliest sales drives, but in signing up small business and residential customers. Only if it attracts these in substantial numbers will it be able to argue credibly that it is a truly national network. It needs to substantiate this claim to rebut the criticism that it is interested only in skimming the cream from BT's most profitable traffic.

So far Mercury has done little more than limited test marketing to attract residential customers. This year, it will go into much higher gear with an advertising campaign directed squarely at them. Around the middle of 1988 Mercury phone boxes should also make their appearance, first in London, and by the end of the year in other major cities.

Can BT dramatically improve its quality of service? Will Mercury emerge as a truly national service? Underlying both these questions is a third: will ordinary consumers come to see BT's privatisation and the industry's liberalisation, with all the attendant upheaval, as steps which yield solid benefits for them?

The Government and Oftel will be looking for answers to these questions, because this year they will start considering in earnest a series of decisions with fundamental implications for the future of the industry.

First in the pipeline is likely to be the future of the formula governing BT's prices which is due to expire next year. Professor Bryan Carsberg, Oftel director general, is considering whether to seek a strengthening of the formula and whether to build into it quality of service considerations. He has said that the issue is likely to lead to a reference of BT to the Monopolies and Mergers Commission, the mechanism for sorting out disputes between himself and BT.

It is also probable that the Government will indicate this year the timing of the sale of its remaining 49.8 per cent stake in BT. It was committed in the original prospectus not to sell the stake before this April, but it may wait for solid evidence of quality improvements from BT before offloading its shares.

By the end of the year, too, official thinking about two other regulatory decisions that are looming should become clearer. In 1989, the Government is due to decide whether to allow companies to act almost like sub-contractors by leasing lines from BT and then re-selling them for voice traffic; the signs are so far that this will go ahead. In 1990, the Government is due to decide whether to break the duopoly held by BT and Mercury: there is much greater hesitation on this, partly because of the fear that Mercury could be the main casualty if the floodgates are opened.

At least both network operators should be able to count on continuing solid growth in UK telecommunications traffic this year, even if the stock market collapse takes a little shine off the spectacular surges in demand flowing from the City. This cannot necessarily be said of Britain's telecommunications equipment industry.

Private exchange sales will continue to decline this year, according to MZA, a specialist marketing consultancy, as a result of the big modernisation programme carried out earlier in the decade. In 1988-89, they will account for £82.2m, compared with £97.5m in 1987-88.

British equipment companies can derive little comfort from those sectors of the market which MZA believes will be buoyant — telephones, cellular phones, answering machines and the smallest business exchanges — since much of the demand is met from overseas.

This is the backdrop against which the newly merged equipment interests of the General Electric Company and Plessey will have to operate. The joint venture will dominate sectors of the British equipment market, such as private exchanges, but its medium-term priority will be to build up its small presence in overseas markets.

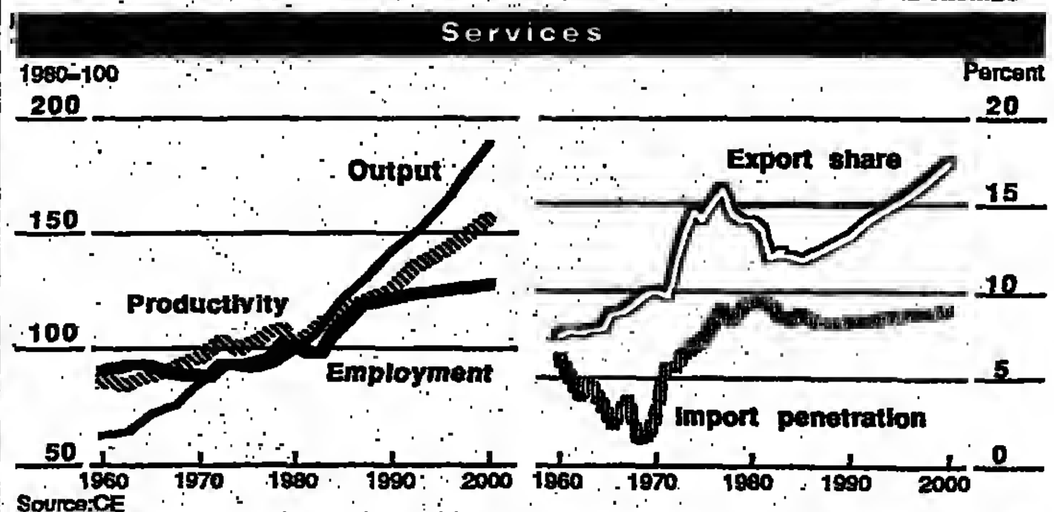
If the unfolding strategy of GEC-Plessey will be closely watched, so too will the progress of another alliance cemented last year: that between Northern Telecom, the Canadian equipment giant, and STC. Northern has given only fairly general indications of how it plans to capitalise on its quarter stake in STC.

A joker which could disrupt everyone's calculations would be a move by BT to introduce a third public exchange supplier into its core network. The GEC-Plessey joint venture, which brings together their respective System X exchange interests, removes one source of competition, while Thorn Ericsson, the Swedish-UK joint venture, has experienced some teething troubles in bedding down its rival System Y exchange with BT.

There would be no shortage of offers if BT felt it needed a another competitor. Both American Telephone and Telegraph, in alliance with Philips of the Netherlands, and Northern Telecom are pursuing sales of specialised exchanges to BT; neither has given up hope of ultimately getting into the core network. However, both will have their work cut out in persuading BT that the benefits would outweigh the disadvantages of having to cope with a third core network.

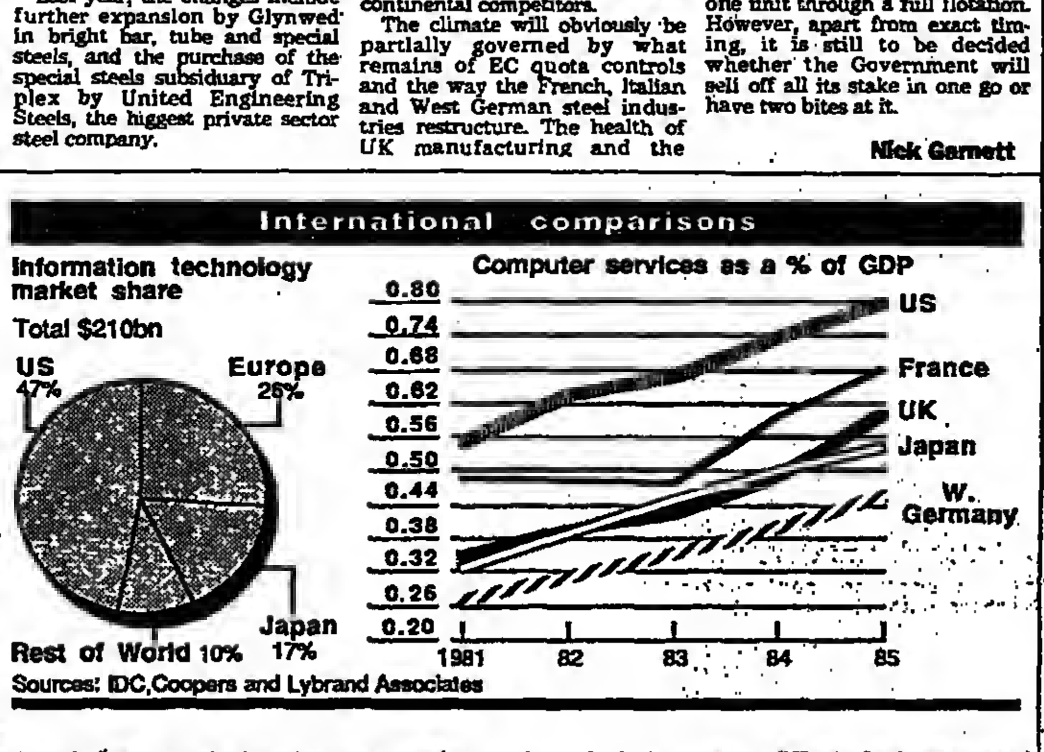
While the prospects for equipment suppliers appear uncertain, the opposite is true of one segment of the industry which continues to flourish: mobile telecommunications. As we enter 1988, there is no sign of an end to the spectacular growth of Cellnet and Vodafone, the two cellular network operators. This year will see the launch of cordless telephones which can be used in places like railway stations as alternatives to phone boxes.

David Thomas



Information technology

The trend to downsizing



THE UK's prospects in information technology are not, on the face of things, particularly promising. Its share of the world market in data processing, telecommunications and computing services remains stubbornly small at only just over 5 per cent. Last year, Britain exported £6.8bn of information technology equipment and imported £8.9bn, a shortfall of £2.1bn.

It boasts one mainframe computer manufacturer, International Computers, with worldwide sales of rather less than 4 per cent of those of the industry leader, International Businese Machines.

Nevertheless, measured by value of installed equipment, ICL, part of the STC group, is the only UK-owned company to figure in the UK "top ten" hardware suppliers. It takes second place to IBM; all the rest are US-owned with the exception of Nixdorf in ninth place.

Britain's programme of research into advanced computing technology, the Alvey initiative, has come to the end of its term and, despite good evidence of solid progress in many areas, the Government is reluctant to commit further funding on the scale demanded.

But telling though these points are, they do not give any clue to the massive changes which are expected to rock the worldwide computer industry in the near future, shaking established leaders — even to the extent of bruising IBM — and, perhaps, opening *windows of opportunity for UK* companies nimble enough to take advantage of them. Indeed, there are already signs that British companies are beginning to seize the technological nettles which could give them competitive advantage.

It seems likely that the changes which will reshape the industry will result from a multiplicity of trends of which the most important are the move to "downsizing," the adoption of international standards and the growth of computer communications.

Downsizing, the replacement of one computer system by another of equivalent power but at greatly lower cost, is probably the principal trend in the industry right now.

It is being driven by the availability of microprocessor chips able to handle data 32 bits at a time, just like mini computers and mainframes.

Combined together into multiple microprocessor packages, these chips can give the processing power of a very much larger machine for a fraction of the price.

Many people think that the most successful companies in future will be those which can most quickly change the design of their machines to multiple microprocessor architectures. Those which do not will find themselves hopelessly overpriced.

The leading UK mainframa and minicomputer companies seem well aware of the challenge.

Mr Peter Bonfield, managing director of ICL, says he expects to announce multiple microprocessor machines in the near future.

Mr Tony Davies, chairman of Information Technology (ITL), claims his lateet mechines already incorporate the new technology.

He says that for £1m he can provide a machine that, in a standard benchmarking test, can process 80 transactione every second compared with 18 tps for a similar value of system using older technology from Digital Equipment, the world's leading minicomputer manufacturer.

Apricot Computers, a UK microcomputer manufacturer which has already made the painful transition from producing low-end, inexpensive machines to top-of-the-line professional computers will shortly announce a range of microprocessor based computers ranging from industry standard workstations to departmental computers processing 80m instructions a second.

It seems, furthermore, that universal standards for the connection of computer systems of different manufacture and to enable the same software to be run on machines of several different makes are at last ready to be accepted by the computing world.

The proposed international standard for computer communications — OSI or Open Systems Interconnection — is within an ace of complete specification. Already a score or more of manufacturers have taken part in trials showing they are capable of exchanging documents between their respective machinery, a crucial test of adherence to OSI rules.

UK companies — and indeed the British Government — have supported OSI for some years now. Mr Bonfield of ICL, for example, is convinced that the company has a robust and realistic strategy.

He argues OSI standards coupled with expertise in both data processing and telecommunications through the link with STC give the company a powerful advantage.

ICL, ITL and Apricot are at one with most of the world'e computer manufacturers in supporting Unix as the operating system for the emall to medium-sized range of machines.

Britain's greatest potential in information technology, howaver, seems to lie in its software and services companies and their ability to become prime contractors for major projects — to become "systems integrators" taking appropriate hardware and software and putting it together to solve its customers' problems.

Dr Douglas Eyeions, director-general of the Computing Services Association, argues that UK systems integrators are especially good at solving customers' problems where the problems are not well-defined.

There are signs that European customers are unwilling to come to terms with software "packages" — generalised software solutions written to be sold to many different businesses — and are looking for a competitive edge from bespoke software.

UK companies are expert in handling "systems kernels" software at the heart of common applications around which bespoke software can be added to suit specific customers.

Dr Eyeions thinks that the general outlook is good, although he expects some fall-off in financial services contracts after the crash in world stock markets; defence spending is also likely to be down.

Much depends on the extent to which IBM and other mainframe manufacturers move into the systems integration business, he says.

Overall, the largest question-mark hangs over the extent to which UK information technology companies can break out of their narrow domestic sales pattern and look to bigger markets in Europe. Mr Bonfield sums up the position: "How fast can we move to an understanding of a *European market without frontiers?* he asks.

Alan Cane

Shipbuilding

The worst may now be over

TO A large extent, the prospects of Britain's merchant shipbuilders in the coming year rely on factors beyond their own direct control, as do those of the UK'e remaining shipowners.

Of course, shipbuilders must make strategic decisions about which sector of the market they are in, and shipowners about routes and investment in additional or replacement ships.

But the reality is massive overcapacity in shipbuilding, and the low level of freight rates available in many sectors of the shipping market.

It is now about 13 years since the beginning of the recession in the maritime industries, and there are some indications that the worst may have passed.

For example, the world tanker fleet was reduced by 1.6m tons deadweight in the first half of 1987, and the dry bulk fleet by 1.8m tons dwt, thus reducing overcapacity.

Analysts say only about 10m tons dwt is expected to be scrapped this year, reflecting owners' reluctance to dispose of ships in advance of what they expect may be a rising market.

Furthermore, secondhand values sre rising, and there are signs that shipbuilders in the Far East, particularly in South Korea, are beginning to push prices up to a level where they might begin to cover costs.

There is also increasing optimism that the frequently-forecast boom in ehip ordering expected from 1990 onwards will actually take place, though cynics suggest that the revival of shipbuilding is perennially three years away at any given time.

First International Capital Group, the shipping bankers headed by the financier Mr Paul Slater, says the order spree is now almost certain, and estimates that orders will be worth $12.5bn a year.

On the other hand, October's stock market crash has raised the spectre of a fall-off in world trade, which could spark off a renewed cycle of overcapacity and falling rates.

If the recovery does come, it will be not a moment too soon for the UK'e state-owned shipbuilders, which returned heavy losses last year.

Mr John Parker, chairman of Harland and Wolff, the state-owned Belfast shipyard, described 1987 as the worst year ever for shipbuilding. The yard needs s major order this year to avoid major job losses.

Yet both Mr Parker and Mr John Lister, chairman of British Shiphuilders, were at pains to stress that they saw the prospect of reducing their substantial losses in the coming year.

Both are actively discussing potential orders with owners who require the sophisticated vessels in which European yards are increasingly specialising.

Mr Lister has also taken a leading role in the campaign by the European Shipbuilders Liaison Committee to persuade the EC Commission to raise shipbuilding subsidies to 30 per cent from the present level of 20-28 per cent.

European shipbuilders maintain that this is essential, even if prices do continue to rise, since at current world prices, led by the low-cost South Korean producers, they often cannot cover the cost of materials, let alone make a profit.

Britain's warship yards, removed from British Shipbuilders and privatised by the Government in the past few years, are in a difficult position, with the exception of VSEL Consortium, the submarine builder *based in Barrow-in-Furness*, which has the contract to build the UK's Trident submarines.

Other yards — Yarrow, Vosper Thornycroft, Cammell Laird and Swan Hunter — face a struggle for a declining amount of Defence Ministry business, which is not eligible for subsidies.

Kleinwort Grieveson forecast in a recent report that overcapacity in warship building was so bad that in 10 years' time the UK might be reduced to only VSEL building submarines, and one other yard servicing the rest of the Royal Navy's requirements.

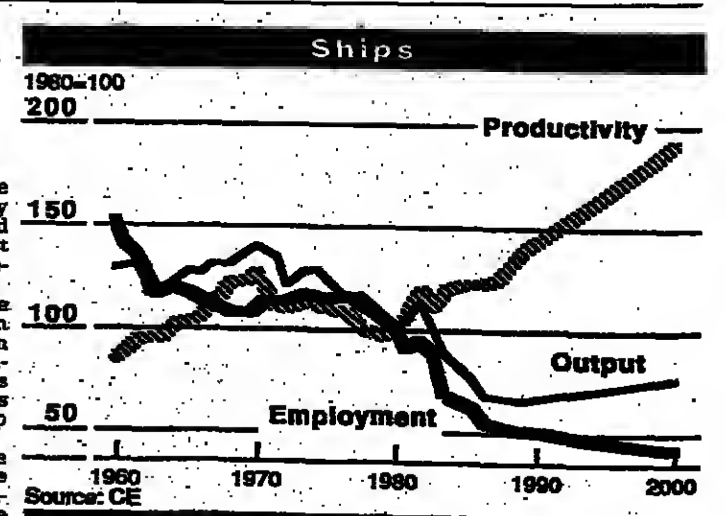
The writing may be on the wall in the shape of the decision by Trafalgar House, which bought Scott Lithgow, to mothball the yard until business improves. Even then, the yard is unlikely to return to warship building.

Among shipowners, confidence is growing that the upturn in the freight market for dry bulk carriers which has occurred in the last few months may last longer than prevtoue short-ltved improvements.

Fearnley's, the Norwegian brokers, drew a comparison recently between the characteristics of the present upturn and a superficially similar improvement in 1978-81, and concluded that this time the bull market may be around for some time.

There is also no doubt that the tanker market is much healthier than it has been, although rates showed some volatility towards the end of the year.

One especially important factor here is that the oil majors have established a strong market presence through long-term contracts with the producer nations which will protect them against vagaries in oil prices and ensure a steady core of business for the tanker fleet.



The one sector of the shipping market in which there has been constant expansion is pleasure cruising, and major orders for new ships are likely in the coming year.

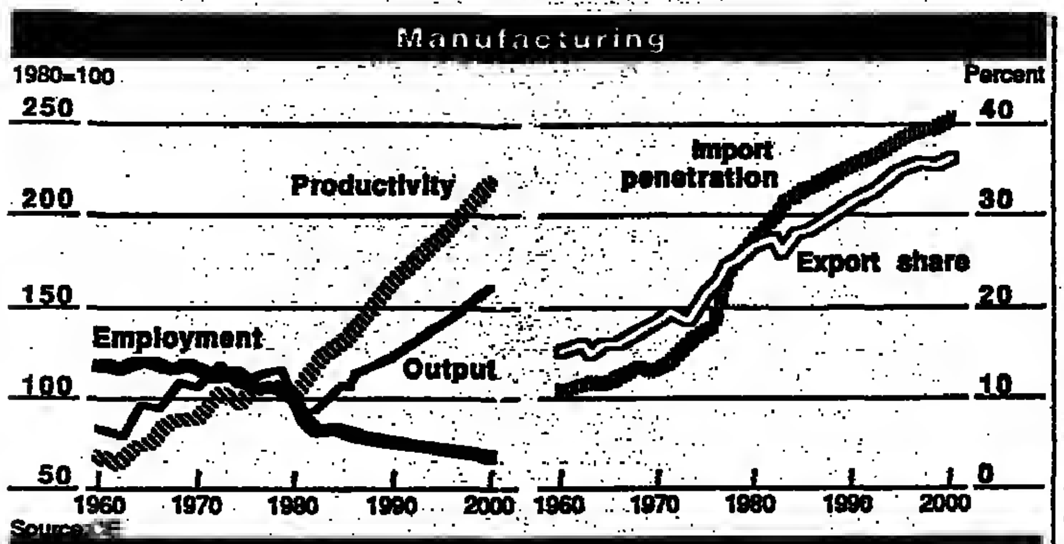
Most companies believe that demand is virtually inexhaustible, since even in the US, the most developed market, only around 2m people take cruise holidays each year.

The biggest market is likely to be Japan, where local shipping companies have plans to offer cruising holidays for the first time. But this market is virtually closed to UK companies such as Cunard and P&O, however, because of the Japanese preference for travelling with local operators.

On the domestic scene, attention will be focused on the proposed agreement between P&O European Ferries and Sealink UK, which intend to apply to the Office of Fair Trading for permission to form a cartel to fight Channel Tunnel competition.

UK owners will also be keeping a close eye on the progress of investigations by the EC Commission into alleged breaches of Community fair trading law on the shipping routes to the US and Australia.

Kevin Brown



Within the general manufacturing sector, industrial demand is forecast to grow fastest in office machinery and data processing, electrical engineering and instrument engineering.

Electronic components

Buoyant demand set to continue

THE EARLY part of 1988 is likely to mean a period of stock-taking for the UK electronic component industry, as companies come to terms with the fundamental restructuring brought about by Plessey's acquisition of the semiconductor business of Ferranti in November, a move which cemented together Britain's two biggest chip concerns.

This consolidation is taking place at a time when demand for components in the UK looks set to continue buoyant. Dataquest, the US-based market research organisation, believes UK semiconductor demand could grow by as much as a fifth this year, building on strong demand from data processing and industrial customers last year – the UK sector is so healthy that some suppliers were "having to reschedule bookings taken in 1987 into the New Year," says Mr Jim Beveridge, a London-based analyst with Dataquest.

The main doubt on the immediate horizon is whether the stock market collapse will have knock-on effects for the component industry's customers.

"That is a worry for us all, but I find it very difficult to model through to the component sector," comments Mr David Kynaston, managing director of Mullard, the UK components business of Philips of the Netherlands.

Mr Kynaston believes there may be some slowdown in 1988, but principally because 1987 was a year of exceptional growth after the depressed previous year. Yet Mullard is sufficiently confident of the future to have carried through important investments recently, such as the installation of a line in its Durham plant to make colour tubes for the computer industry, which were previously imported from the Far East.

Whatever the level of growth, much of it will be met either by imports or by the large number of foreign-based companies now producing components in Britain. In semiconductors, for instance, over half Britain's output is accounted for by foreign-owned companies.

However, most of the plants owned by the giant multinationals are in Britain as part of their global marketing strategies: many of their chips are destined for customers on the Continent or further afield, giving the foreign-owned plants some immunity to short-term fluctuations in British demand.

As part of these global plans, some are introducing state-of-the art technologies into their British facilities. NEC of Japan and Motorola of the US, for instance, are both set on producing the next generation of advanced memory chips in their Scottish plants.

The indigenous British industry has quite different problems - principally its fragmentation and its poor record in attacking world markets.

Plessey's purchase of Ferranti's chip business is an important step in reducing the fragmentation. The resulting operation begins to have credibility in terms of size in the types of chips in which both Plessey and Ferranti have specialised.

They have concentrated on chips which are at least partly customised for particular users, known as Application Specific Integrated Circuits (ASICs), a segment of the business which has been growing in importance within total semiconductor sales. However, many analysts believe that the American and Japanese chip giants will progressively move into the ASIC market, turning them into commodity products and driving the price down.

So Plessey, which also demonstrated its commitment to the business last year by investing £50m in a new chip plant in Plymouth, has a limited window of opportunity in which to get its act together. Plessey's and Ferranti's technologies appear to go well together - Plessey's low power CMOS capability will complement Ferranti's high power bipolar gate arrays - suggesting that Plessey will not need to engage in too much basic surgery to whip its new business into shape, though it has dropped hints that Ferranti's loss-making discrete business, based in Manchester, is a candidate for rationalisation.

But as, if not more, important than the question of the technological fit is whether Plessey will have the courage and resources to beef up the marketing effort neeeded to drive a successful chip company – the area where British companies have generally fallen down in the past.

The fact that Plessey is clearly not content just with its acquisition of the Ferranti business is a sign that Plessey grasps the size of the mountain it has to climb. It is determined to build up its presence in the US and has said it will look at joint ventures and acquisitions there as a means of doing so. It has also at various times shown an interest in Inmos, the chip subsidiary of Thorn EMI, and the semiconductor operations of the General Electric Company.

This year might see Thorn finally realising its ambition of selling a controlling stake in Inmos, the company which has won plaudits for its innovative chip designs, but which has not yet build up enough sales to generate consistent profits. With Plessey apparently no longer interested, it looks increasingly possible that control of Inmos might pass into foreign hands.

David Thomas

Domestic appliances

British market is wide open

TOSHIBA OF Japan started selling free-standing electric cookers in the UK for the first time last month. Matsushita, the Panasonic parent, is looking around for "several" new manufacturing sites. Safel of Spain is re-entering the British market this year, 15 years after being forced out by cut-throat pricing policies, with a range of washing machines and refrigerators. Simpson of Australia is also weighing up the possibilities. Candy of Italy has budgeted to spend a record £8m on promotion.

Good news or bad? Both. The interest of these and other potential suppliers confirms quite clearly that the British domestic appliance market is on the way up. Sales and margins are improving, and everyone wants a piece of the action. Hotpoint, the GEC subsidiary, showed its feelings about the prospects when it took the plunge last year and bought Creda, TI Group's white goods business for £126m.

Although much of the improvement can be put down to the popular success of "new" products like the microwave oven and dishwashers, sales of all kitchen appliances have picked up. Some estimates suggest a 6 to 8 per cent advance across the board, perhaps a little ahead of the general boom in consumer spending.

Optimism, tempered by still-distant fears of recession in the wake of Black Monday, remains high. Apart from expectations of continuing high sales of newly-fashionable products, the market for replacements of old washing machines and refrigerators, helped along by innovative features such as frost-free freezers and electronic programming, is likely to improve.

The pity of it is that there are so few indigenous British appliance makers to take advantage of this. Hotpoint stands streets ahead of companies like Lec and Servis. US-owned Hoover holds a strong second place from its base in South Wales. Although UK output is increasing, it has a long way to go before it can meet domestic demand. Britain produced only about 10 per cent of the European Community's total output of 33m appliances in 1985, while UK demand accounted for 18 per cent of EC sales.

Relative market stability, which has improved since the early 1980s, has improved margins. Prosperity has led to improved sales, and inevitably, Britain is increasingly seen at home and abroad as a market with renewed potential.

However, that vision could fade quickly if too many suppliers pile in. If disappointment is remedied by past tactics - such as attempts to "buy" market share with giveaway prices - everyone will suffer.

That aside, there are ample signs that the European market as a whole has followed a similar track to that in the UK. CECED, the appliance makers' federation, which covers the Community plus Sweden, Austria and Switzerland, recently published an unusually cheery report which declared: "Future prospects can be generally assessed as positive." It painted a picture of a growing market, fed by a leaner and more muscular industry.

After declining by an average 2 per cent a year between 1980 and 1985, European white goods production increased 9 per cent in 1986. However heartening, a snapshot of one year's performance is no basis for over-optimism. But the background is encouraging. CECED points out that the long haul towards rationalisation has accelerated. The number of employees in appliance manufacture, having fallen by 12 per cent during the 1970s, dropped by a further 23 per cent between 1980 and 1986.

There were almost 700 companies in the business in 1970. Now there are 450. But this figure does not fully reflect the full extent of the restructuring. CECED's figures include all subsidiaries and factories owned by multinationals such as Philips and Electrolux. Best estimates suggest there are still between 300 and 350 independents and groups operating in Europe. Compared with the US, where four majors account for some 85 per cent of all sales, rationalisation still has some way to go. Even allowing a generous margin to allow for national preferences and varying technical requirements, the US example suggests 50 separate companies could probably fill European requirements comfortably.

Doubtless, rationalisation will continue. The past year has seen Merloni Elettrodomestici of Italy take over Indesit. Electrolux has gobbled up Thorn EMI's appliances arm and Hotpoint has taken over Creda.

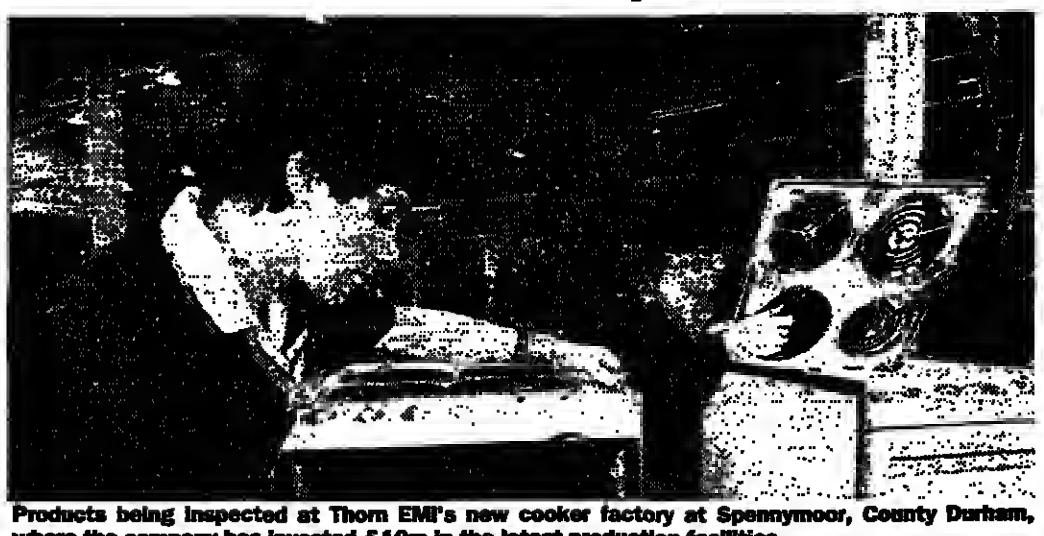
There will be more classic takeovers like these, but restructuring may also involve more co-operative efforts, perhaps similar to the long-standing joint manufacturing and marketing venture between Bosch and Siemens of West Germany.

The prospect of a radical link between Whirlpool Corporation, the largest appliance maker in the US, and Philips of the Netherlands, Europe's No 2, receded when negotiations were called off recently, after more than a year. Although Philips declared that it was not looking for other partners, it is sure to find itself being assiduously courted in the future, since Whirlpool's initial aim of a joint venture to produce its machines in Philips's facilities was intended as an overture to acquisition of the Dutch group's appliances arm.

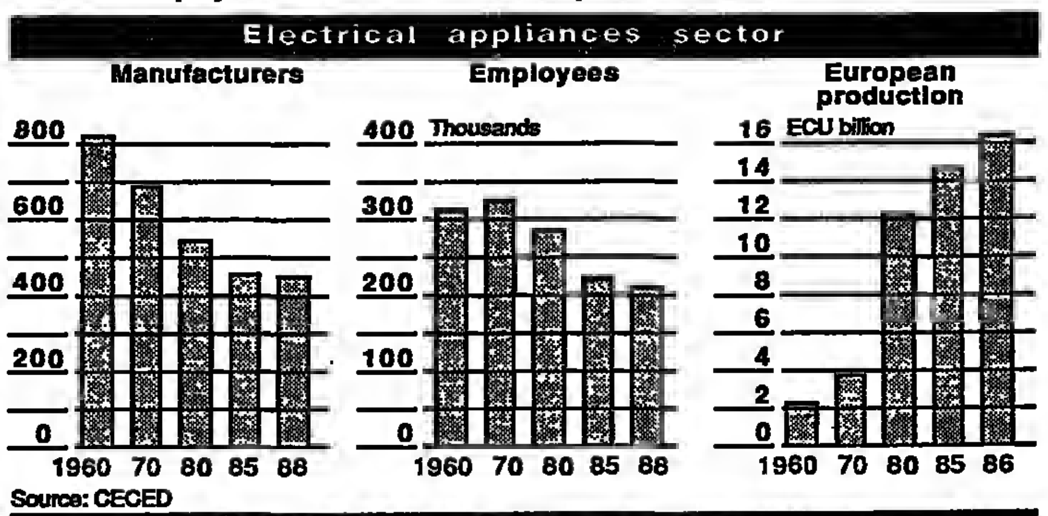
General Electric of the US, a close second to Whirlpool, has global ambitions, and cannot be discounted. Britain's Hotpoint has more modest targets. For the present it has to absorb Creda and consolidate its standing in the UK. But it also accepts that sitting pat on a national market, with no international interests, is not a particularly secure position.

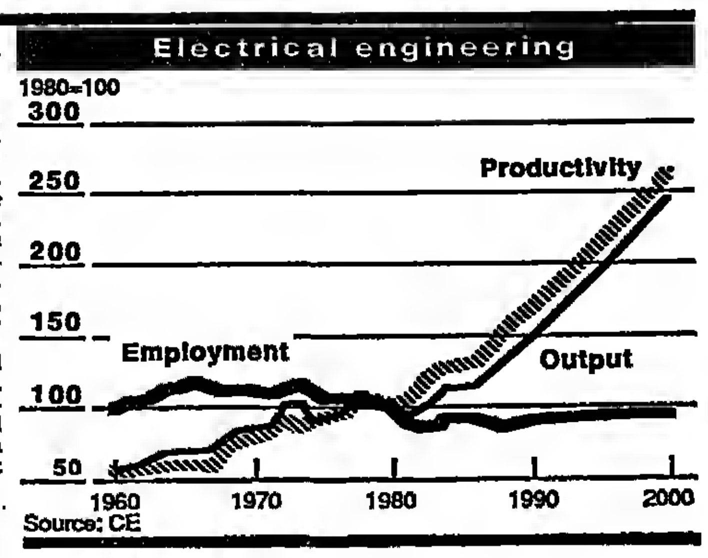
The departure of Whirlpool offers a possible opportunity. GEC and Philips already co-operate in a joint venture in world medical electronics markets, so a link in kitchen products cannot be out of the question.

Christopher Parkes



Products being inspected at Thorn EMI's new cooker factory at Spennymoor, County Durham, where the company has invested £10m in the latest production facilities.





Mechanical engineeering

Quieter year may be ahead

WILL MECHANICAL engineering continue to demonstrate in 1988 the schizophrenia that was such a feature of its character last year?

Yes it will, but it will not be so pronounced. That probably sums up the view of most managers working in the fiercely competitive sectors which make up what is still one of the UK's principal areas of employment end foreign exchange earnings.

Two very clear but conflicting trends characterised mechanical engineering in 1987.

On the one hand, many well-established companies enjoyed much improved profits. Some operations like those of tractor-maker Massey-Ferguson at Coventry and Cummins' diesel engine plant at Shotts in Scotland found themselves either working seven days a week or producing close to capacity.

At the same time, there was an aggression in the industry not seen for many years. For companies like APV, the food processing equipment maker, BTR and Hawker Siddeley, this took the form of a big acquisition drive, with US companies the main target.

As part of this upbeat trend, a number of new foreign-owned players either emerged or expanded as production companies in the UK These included Komatsu, the Japanese construction machinery maker and Yamazaki in machine tools.

But along with all this went more restructuring, more plant rationalisation, more redundancies and more sheer pain than has probably been seen since the grim recession days at the turn of the decade.

Last year was marked by an astonishing series of ownership changes. In some industries, like earthmoving machinery and machine tools, a host of companies was involved. In other sectors, it was more a case of the big one-off shift in ownership which has fundamentally altered that sector's structure.

In pumps, it was the purchase of Mather and Platt by Weir. In power generation it was the acquisition of Babcock by FKI. In food-making machinery it was the merger of APV with Baker Perkins. Others that fall in the same frame include the sale of RHP's bearings business, the UK's biggest, in a management buy-in, and the acquisition by Electrolux of Sweden of the Ransomes, Sims and Jefferies farm machinery business.

Apart from this fundamental reshuffling, the continuing need to make unpleasant adjustments to changed circumstances was much more in evidence last year than in 1986.

This took many forms. For some it was plant closures which included that of Ransomes and Rapier, the dragline maker at Norwich, and the Caterpillar dozer factory in Glasgow. Jones, the 600 Group mobile crane maker virtually stopped production.

For others, it was labour shedding. Two power generation equipment companies, Babcock and NEI Parsons announced substantial redundancy programmes. So did Case, the US tractor maker at two of its sites in the North.

Many companies were, and still are locked in internal reorganisation programmes. Some of them, like that at Aveling Barford, the construction machinery maker, have been painful. Others, like that on which Lansing, the lift truck maker, has embarked have been less so.

It would seem that many of the trends evident last year will also be seen this year but not to the same pronounced extent.

More acquisitions in the US, which last year often revolveds round the purchase of companies making electronic controls, are certainly on the cards. But the stock market slide will mean there will be fewer of them. The withdrawal of TI from its planned purchase of Bundy, the US tube maker is likely to be a sign of the times.

Further restructuring is bound to happen in the UK, particularly in sectors burdened with excess capacity, outmoded production plant or very weak companies.

There has been a persistent rumour that GEC would be prepared to get out of all or most of its diesel engine businesses if it could secure a reasonable price. The company has tended to deny this, not entirely convincingly. Last year it sold Dorman to Broad Crown, the generating set maker.

It is difficult to see, though, how there could be as much reshuffling as last year. In machine tools, for example, at least six companies changed hands in 1987, including the former TI business, one of the largest indigenously ownad machine tool operations. There are not many more companies up for grabs at the moment.

Another trend which could continue is the growth of the so-called mini-conglomerates like Williams Holdings, Tomkins, Siebe and Suter. These companies have been darlings of the analysts and in financial terms have performed very well. Their tendency to diversify, shown most strikingly in Williams' purchase of paints companies, Crown and Berger, will remain.

Analysts appear to be expecting a strong earnings growth this year for companies in mechanical engineering. Hoare Govett, for example, is predicting an overall jump of 20 per cent, and 13 per cent for 1989 above last year.

The relative health of manufacturing sectors within mechanical engineering however will contimue to vary very substantially.

In power generation equipment, it is going to be another difficult year. The programme of new power stations is good news for equipment soppliers but the tendering and ordering schedule means that work will not start in earnest on shopfloors until 1990.

GEC Turbine Generators claims to be about the busiest company in this sector right now but its Rugby operation is only operating at around 65 per cent of capacity.

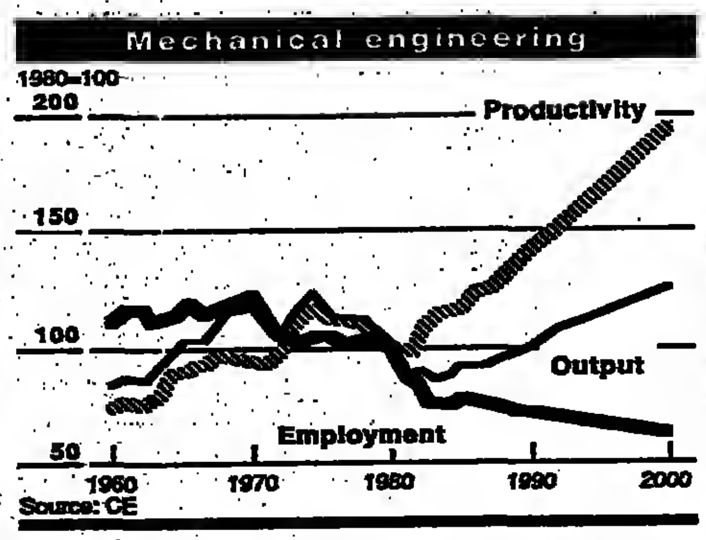
Debate about the kind of structure the electricity generating industry should have on privatisation has also sparked some nervous fidgeting about the affect this might have on the nuclear power station programme.

The machine tool sector suffered a drop in sales last year and is concerned about 1988 even though there has been a recent pick-up in orders. Many diesel engine builders are very busy but margins are a nightmare. Plant makers are worried about the state of ordering from processing industries.

In some sectors, though, demand is expected to stay very healthy. For example, the UK market for construction machinery has been pretty buoyant and requirements for small and large equipment still look pretty good.

As with so much of British manufacturing industry, currency movements and the state of overall demand in the US and UK will play a large part in defining the kind of year that mechanical engineering will have in 1988.

Nick Garnett



Brighter outlook for the chemicals industry

Period of new-found confidence

FEW AREAS of British manufacturing appear as strong, or as confident, as the chemicals sector.

Having encountered a rough period at the beginning of the 1980s, the industry has restructured itself, shedding a lot of its workforce in the process, and appears well placed to take advantage of what look like being favourable trends for the worldwide chemicals business over the next few years.

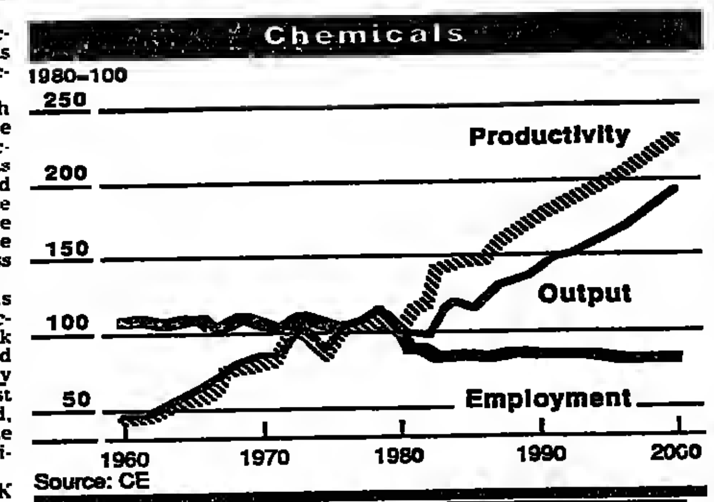
The chemicals sector is Britain's fourth biggest manufacturing business, after food, drink and tobacco, and mechanical and electrical engineering. Roughly half the industry's output last year of £20bn was exported, making the business one of the most globally minded of the various UK commercial sectors.

While in the 1980s the UK trade balance in manufactured goods has slipped deeper and deeper into the red, in the chemical industry the reverse position is true. Last year it had a net export surplus of £2.3bn, as opposed to a net deficit of some £10bn for the manufacturing sector overall.

During the 1980s the chemical industry in Britain has grown at an average rate of 4 per cent a year, second only among UK manufacturing sectors to electrical engineering, which achieved growth of 6.5 per cent. According to two recent forecasts, from the National Economic Development Office and Cambridge Econometrics, this reasonably healthy expansion is likely to continue into the 1990s, albeit at slower rate of 3 to 3.5 per cent.

While demand for chemicals is notably cyclical – resulting in the output and profits of the industry being closely linked to the ups and downs of the world economy – there is a general belief that the UK chemicals sector will be better positioned to emerge in reasonable shape through the next period of downturn, whenever that may be.

Ms Jinty Price, a chemicals industry analyst at Barclays de Zoete Wedd, goes along with this general optimism, though she says "there are grounds for slight worry" in the immediate future regarding the effects of what appears likely to be a slow-down in the US economy spilling over to Europe.



Shift in products to high-value end of the sector and away from commodity items

In part, the good prospects for the UK chemicals sector derive from the overall reduction in employment in the industry since it encountered the depths of economic recession around 1980. From 413,000 employees in 1979, the chemicals business in 1986 accounted for 337,000 people, while production is roughly 10 per cent higher.

Onlookers say the fall in numbers signifies a leaner, more efficient industry, which as a result of more flexible working practices can react more quickly to changes in the market-place. "The UK chemical industry has never been healthier," declares Mr John Cox, an ex-Shell executive who is director-general of the Chemical Industries Association, a trade body for British chemicals companies.

Another change has been the shift in the products of the UK industry towards the speciality or high-value end of the chemicals business and away from commodity items such as polyethylene and polystyrene. The speciality side of the business includes a bewildering range of materials from engine lubricants to soap powder and catalysts and from agrochemicals to food additives and engineering plastics.

Another high-value area among chemical products is pharmaceuticals which, accounting for roughly a quarter of the output of the UK chemicals sector, is treated as an industry in its own right. Switching resources from bulk chemicals to the speciality area of the industry makes sense for an advanced, industrialised nation like Britain as, in theory at least, it should be able to exploit advances in the latest scientific research to turn out goods aimed at particular sectors of the market-place and which can be sold at a high price.

In this way, the industry should be able to insulate itself, at least to some extent, from downturns in the market which will affect the staple, bulk areas of the business to a higher degree. In future, according to Mr John Goldhill, an analyst specialising in chemicals and plastics at the London office of Arthur D. Little, the US consultancy, chemicals concerns will be forced to shift towards the speciality products to a still greater extent. He foresees a greater customisation of products as the focus in the industry swings more towards addressing specific needs in the market-place rather than turning out large volumes of basic commodities.

Many successful chemicals companies will behave more like service concerns in selling highly specific materials (backed up by a large degree of customer support) rather than like traditional manufacturers, thinks Mr Goldhill. Areas where such trends can already be seen include, for example, the provision of resins and speciality fibres for the manufacture of high-strength composite materials used in industries such as aerospace and cars.

In this context, Mr Cox of the Chemical Industries Association sounds a note of concern when he says he is worried that in Britain the user base in high-value areas like composites does not appear particularly strong. This may, in future, force UK chemicals concerns to look increasingly to overseas markets for their sales.

The shift in the UK towards the high-value side of chemicals can be generally seen in the healthy position of the country in the area of what are called specialised organics. These chemicals, often with a highly complex formula and with near-unpronounceable names, are the building blocks of many types of drug and dye products. They also form the basis of items such as oilfield chemicals (to speed up the flow of oil from wells for example) and new types of polymer. The UK's positive balance of trade in specialised inorganics has increased from £73m in 1979 to £216m in 1986 with output in this sector last year a healthy £1.7bn, a 30 per cent increase on the figure for 1980.

ICI, by far and away the biggest UK chemicals concern, with UK-based production accounting for roughly a quarter of the entire industry, has led the swing towards speciality chemicals, showing a good performance in areas such as specialised inorganics and drugs. The trend has been followed by Shell UK - which with BP and Esso forms the "second tier" of UK chemical concerns and has sales of about £600m a year. Other, smaller companies which have impressed analysts with their performance in shifting more into the non-bulk kinds of areas include Allied Colloids, British Vita and Laporte.

Parts of the British chemical industry which, in contrast to specialised organics, are in a far less healthy state are by and large the commodity-type areas such as fertilisers and the raw petrochemicals such as commodity organics and plastics produced as the staple products of plants like ethylene crackers. In fertilisers, in particular, the UK industry has had to undergo radical restructuring as both demand and prices for the commodity have fallen dramatically over the past few years. The poor state of the UK fertiliser sector, where last year there was a trade deficit of £130m, has been due largely to problems in the world agriculture industry and the existence of new fertiliser suppliers from the Far East and the Arabian Gulf. These have been selling their products particularly cheaply.

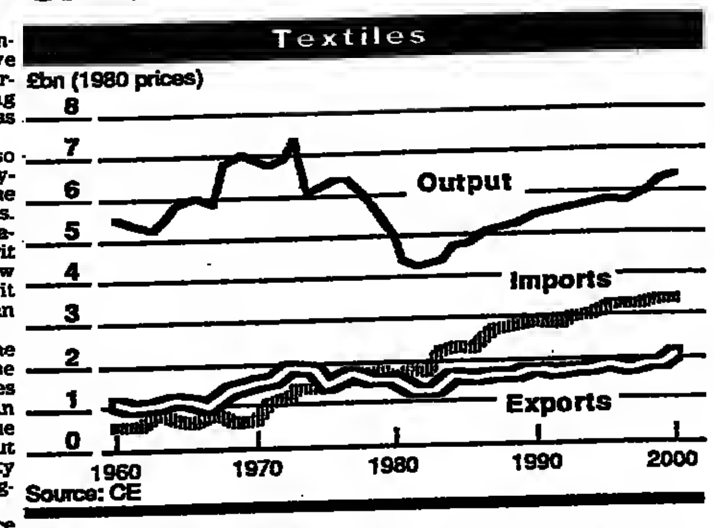
Peter Marsh

Textile industry

Days of decline are over

IN THE past year or so, whenever Government ministers have cast about for examples of resurgence within manufacturing industry, textiles has emerged as a popular choice.

The textile industry, or so these ministers are fond of saying, has hauled itself out of the doldrums of the early 1980s. Moreover, they say, the combination of a new managerial spirit and sustained investment in new technology has transformed it from a relic of the past into an industry of the future.



No-one would deny that the days of decline are over. The mill closures and job losses which blighted the industry in the early 1980s are part of the past. Imports are still rising, but so are exports. Both profitability and productivity have risen significantly.

But an industry in resurgence is, by definition, an expanding industry. As yet, there is no evidence that Britain's textile manufacturers are sufficiently confident to invest in new capacity. The memory of the mistakes of the late 1970s – when so many manufacturers engaged in ambitious expansion programmes, thereby exacerbating their problems during the slump – still haunts the industry.

The more optimistic observers of the textile sector had hoped that 1988 would be the year in which the industry would summon the confidence to expand. But as 1987 wound on those hopes were dashed by the dual threat of a downturn in consumer spending and a continued surge of imports from the Far East.

The textile industry of today is a pale reflection of its post-war peak in the early 1950s. Nevertheless, it employs almost 500,000 people, nearly a tenth of the manufacturing workforce and is one of the chief sources of employment for women and ethnic groups.

The tradition of regional specialisation has survived the slump. Cotton production is still concentrated in Lancashire; wool in Yorkshire and the Scottish Borders; and knitting in the East Midlands. Moreover the corporate structure of the industry is as diverse as ever. Its twin colossi, Coats Viyella and Courtaulds, are the two largest textile groups in Europe. But the back streets of Britain's inner cities are littered with tiny clothing sweatshops.

In many ways 1987 was a year of consolidation for the industry. Coats Viyella was still embroiled in the integration of the Coats Patons and Vantona Viyella businesses which it merged in the spring of the previous year. Courtaulds augmented its interests by investing in the lace industry, but its main acquisitions were directed towards other sectors. Even Coloroll and John Crowther, the most acquisitive of the textile groups, called a halt to their expansion programmes.

By the end of the year output had mustered a very modest increase, while employment had suffered a slight decline, reflecting improvements in productivity. Yet the influx of imports into Britain rose rapidly, fuelling fears that the rise will be even more rapid in 1988.

In the first three quarters of last year, the flow of imported textiles and clothing into Britain increased by 12 per cent to £4.7bn. The reasons for this increase were twofold. First, the decline of the US dollar, and of the Far Eastern currencies linked to it, made textiles and clothing from the established low cost producers in Hong Kong and South Korea more competitive. Second, imports from the Far East to the US were diverted to Europe because of concern about the protectionist climate within the US.

The import problem worsened as the year progressed and the value of the dollar fell further. By the third quarter of 1987 the rate of import increase had accelerated, rising by 19 per cent to £1.7bn.

So far, the British textile industry has emerged unscathed from this surge in imports. Output remained relatively robust until the end of the year and, other than some signs of overstocking in specific areas of fabric manufacturing, stock levels were stable for retailers and manufacturers alike.

But the dollar has fallen further since the end of September. Moreover, the risk that the US Administration may enact the Textile Trade and Apparel Bill, which is about to go before the Senate, though much reduced has not entirely disappeared. If enacted, this legislation would not only restrict the entry of British goods to the US, but would divert Far Eastern textiles bound for the US to Europe. Whether the industry will be able to shrug off a further rise in imports is debatable.

The outlook is further clouded by the threat of a slump in consumer spending. In 1987 the effect of the increase in imports was cushioned by the combination of the encouraging, if more modest, growth in exports and the buoyancy of consumer demand.

There are already signs of a slowdown in consumer spending. The pessimists in the industry suspect that this slowdown could turn into a slump. At best, expenditure on clothing is expected to settle into a long-term pattern of growing slightly more slowly than consumer spending as a whole. If this scenario unfolds, the domestic textile industry will be left fully exposed to rising imports.

It is more difficult to predict whether the recent rise in exports will be sustained. In the past few years exports of British textiles to the European Commission countries have increased, helped by the more competitive sterling exchange rate against the key European currencies. Similarly, the increase in imports from within the EC has been halted.

It remains to be seen whether British textile and clothing manufacturers have simply benefited from a short-term currency advantage or have succeeded in establishing a long-term foothold in the European marketplace.

One encouraging sign is that the growth of exports to Europe has continued in the past few months, even after the pound strengthened against many European currencies.

Given that the British industry is now much more competitive on cost than most of its European competitors, this increase should continue. Moreover there is lots of scope to displace European imports within the domestic marketplace.

Even if the industry's worst fears materialise – the flow of imports accelerates and consumer demand dwindles – it is undoubtedly in better shape than ever before to withstand a downturn.

In the recession of the early 1980s the textile industry not only suffered from the general economic malaise, but from the legacy of its own structural weaknesses, mismanagement, under-investment and inefficient stock control.

These problems were addressed in the restructuring of the mid-1980s. The British industry may still lag behind its chief European competitors, in Italy and West Germany, in the level of modernisation but it has made great advances. Moreover, the severity of the slump has left the industry with with a "siege mentality" which has manifested itself in the reluctance to invest in new capacity over recent years.

This attitude may have made the industry less dynamic, but it has also ensured that it will be far less exposed should economic conditions become less clement.

Alice Rawsthorn

The UK boasts world-class companies in the pharmaceutical sector

Healthy exports prospects

BRITAIN'S pharmaceuticals industry is a curious paradox. In terms of sales growth, profits and exports it is one of the country's most successful businesses. Yet for much of the time the industry behaves as if it were fighting for survival.

One of the reasons for the near-schizophrenic tendency of the industry is that it depends for its new products and sales revenues almost entirely on scientific discoveries that have, in the past at any rate, been largely hit-and-miss affairs. This explains the general nervousness – rather similar to that of a top goal scorer in football about whether he can keep finding the net – as to the degree to which the industry can continue with a high rate of innovation.

Then there is the large, and undoubtedly burdensome, degree of regulation with which the pharmaceuticals business has to contend. The industry has to keep within a mass of government rules setting out guidelines on areas such as patents, animal experiments and the lengthy and expensive clinical trials which are required to ensure products are safe.

Added to this is the Government's role as a customer. Drugs are like military equipment in that, worldwide, most sales are via state agencies. In Britain, the Department of Health and Social Security, the main customer for UK pharmaceutical companies, controls not only prices but other aspects of their activities such as the cash they spend on promotion and on research and development.

These controls are exerted through a Byzantine set of rules known as the Pharmaceutical Price Regulation Scheme (PPRS). The latest scheme, agreed with the UK pharmaceuticals industry last year and set to last into the 1990s, contains terms which most observers agree are generally favourable to the drugs business – but company representatives still continue to find fault with the guidelines. Despite the unusual level of constraints within which the drugs sector operates, the 1980s so far have been a highly successful period for the business, with most onlookers predicting that this will continue for the foreseeable future.

The drugs business in Britain can be looked upon as a specialised slice of the chemicals industry, accounting for annual output of about £5bn or roughly a quarter of the turnover of the chemicals sector. Roughly £2bn of the sales are prescription items paid for by the National Health Service.

The pharmaceuticals sector sells nearly a third of its production overseas, making it an extremely high export earner. It is also one of Britain's biggest employers of research staff, spending about £500m in this area this year.

Compared with other industries, the UK pharmaceuticals business has had a good growth record in recent years, expanding sales by 26 per cent between 1980 and 1985, a figure that puts in the shade the comparable growth rates for industries such as engineering and textiles. In another indicator of success, the trade surplus for UK pharmaceuticals is likely to be about £830m this year compared with roughly a quarter of this figure in 1975.

Unlike other areas of industry such as engineering and electronics, Britain boasts a number of world-class companies in the drugs sector, including the UK-owned Glaxo, ICI, Wellcome, Beecham, Smith and Nephew, Fisons and Boots. Other, foreign-owned, concerns with a significant presence in the UK include May and Baker (a subsidiary of Rhone-Poulenc of France) and the US multinationals Squibb, and Smith Kline and French Laboratories.

Mr Ian White, a respected drugs industry analyst at Greenwell Montagu, the London stockbroker, believes that the immediate prospects for the UK drugs business are good. He sees sales and profits for many of the UK companies expanding at the rate of 15-20 per cent a year. "We may within the next year or two see a slight slowing of growth but I see no particular cloud on the horizon for the UK companies," he says.

The outlook for individual companies is influenced by the specific products now passing through their research and development pipelines, prospects for many of which have excited industry observers. In the case of Glaxo, the UK industry leader, which has shot within the space of a decade from being an also-ran to the world's sixth biggest drugs concern, analysts are impressed by the potential of two drugs now under development and which seem likely to appear on the market place in 1989 and 1991 respectively.

The formulations - for treating sickness in cancer patients (another variant on the product may help combat depression and schizophrenia) and for combating migraine - could account for sales of hundreds of millions of dollars a year in the 1990s, say onlookers. As such, the products could be a useful follow-up for Glaxo to Zantac, an anti-ulcer medication which appeared on the market in the early 1980s and has climbed to become the world's best-selling drug, with annual sales over $1bn.

Analysts are also bullish about prospects for Tilade, an anti-asthma prodoct marketed by Fisons, and Eminase, a drug invented by Beecham for treating victims of sudden heart attacks. Steady growth is also foreseen for ICI, which has specialised in medications linked to the fast-growing market in cardiovascular products, and Wellcome, which has shot to prominence to a large degree due to its work in anti-viral compounds such as the company's Aids drug, Retrovir, and its Zovirax product for treating herpes.

Specific areas for the future which cause the industry concern include the large uncertainties about the nature and degree of government regulation over the next few years and the effect of public spending cuts on university research in fields such as biology and medicine. These constraints on the university system, some industry leaders suggest, are already making it more difficult for companies to find the brainy and well-trained graduates which they need to keep their research teams up to scratch and to lay the groundwork for future winning products.

Another challenge for the industry is to improve its information service to the public about its aspirations and about the general nature of its business. What is, by most people's standards, a highly successful UK industry is often put in a poor light by references to drugs firms' use of animal studies or their occasional over-enthusiastic marketing of medications to doctors.

"The industry has found it difficult to respond to simplistic criticism since the areas involved are, in truth, complex and difficult," remarked a study by Britain's National Economic Development Council last year. "It will be increasingly important for it to marshal and present its evidence and arguments more effectively than it has done in the past. Failure to do so will risk real damage to the industry and, in consequence, to the needs of patients."

Peter Marsh

Problems for Britain's shoe-makers

Imports battle rages

IN THE closing months of 1987, the spectre of the cuts and closures ravaging Italian shoe manufacturers cast a shadow over their counterparts in Britain.

For decades, Italy had housed the most vibrant footwear industry in the world. In the 1950s and 1960s, Italian producers moved onto the world market, aided by low labour costs and an indigenous flair for design.

Yet last year the lira rose so strongly against the currencies of many of the major export markets that Italian footwear companies were powerless to prevent the collapse of their overseas sales. Exports to the US fell by a quarter and to the UK by more than a fifth.

The problem posed by the lira's strength was compounded by the weakness of the US dollar and the Far Eastern currencies linked to it. Italian shoes were not only priced out of overseas markets, but forced to compete with an influx of imports into Italy.

As a result, the industry is in chaos. Employees have been laid off. Factories have closed. Short time working has become commonplace.

Any satisfaction the British shoe industry permitted itself at the sight of the Italian crisis – the emergence of the Italians in the 1960s and 1970s had, after all, wrought havoc in its ranks – was shortlived. For the prospects of Britain's shoe makers are far from rosy.

The industry started 1987 in an ebullient mood. The influx of imports – which had begun in the 1950s and gathered momentum in the 1960s and 1970s – reached a peak in 1984 and had thence begun to decline.

But in 1987 the combination of the dwindling dollar and the threat of protectionism in the US - which prompted exporters to direct their energies towards Europe - fuelled an unprecedented surge of imported footwear into Britain.

In the first half of the year, import penetration soared to represent 67.5 per cent of the British market by volume and 54 per cent by value. Both figures are far higher than the previous peaks in 1984. The level of imports from the emerging footwear markets of China, Indonesia and Thailand more than doubled in the first three-quarters of the year.

The impact of this increase was softened by a fall in imports from the EC, from Italy and France in particular. Moreover, manufacturers in the Far East tend to concentrate on the production of slippers and sports shoes, rather than on the leather footwear made by the bulk of the British industry.

These "mitigating" factors ensured that shoe-makers in Britain emerged relatively unscathed from the problems of 1987. Order-books became rather thin from the summer onwards, but the industry was spared the scathing cuts and closures which were sweeping through Italy.

But the full effects of the fall in the dollar will not be felt until the spring. Manufacturers are less confident that they will be able to withstand a further influx of imports in the coming year.

The conclusions of the latest Cambridge Econometrics study of the prospects for the clothing and footwear sectors are scarcely encouraging. It anticipates an

Prospects for the shoe industry are far from rosy, with imports rising this year from 32 to 36 per cent.

increase in import penetration from 32 to 36 per cent this year for both sectors and a more modest increase in exports.

The problem of a further surge could be exacerbated by an increase in imports of leather footwear. Brazil began to "divert" some of its leather shoes, hitherto bound for the US, to Europe early last year. Similarly imports from both Spain and Portugal rose - bucking the trend for the other EEC exporters - in 1987.

Another cloud over the industry is the threat of a downturn in consumer spending, coupled with over-stocking within the retail sector. Footwear sales were relatively resilient in the spring and summer of 1987, but faltered from mid-autumn onwards. C. and J. Clark, the second largest retailer, reported a particularly poor performance from women's shoes.

In past years, sluggish sales in one season have led to destocking in the next. There is serious concern that retailers may be, at best, cautious in ordering for spring this year.

The combination of a surge in cheap imports, a slump in consumer spending and a sluggish retail sector is scarcely cheering. Mr Nicholas Calvert, director of trade at the British Footwear Manufacturers Federation, said that the industry is "very concerned" that all three factors will implode on its prospects in 1988.

Cambridge Econometrics expects that domestic demand for clothing and footwear will fall by 1.7 per cent this year and that employment in the two industries will, in consequence, be reduced by 5 per cent.

It is the hundreds of tiny shoe manufacturers that are likely to bear the brunt of the industry's problems. The larger concerns - like the British Shoe Corporation, a Sears subsidiary, C. and J. Clark, the FII Group and Lambert Howarth - should be less vulnerable.

In recent years these big companies have invested heavily in new technology in order to improve productivity and thereby become more competitive with their counterparts in Italy, France and Spain. The industry as a whole increased output per employee by almost a quarter between 1982 and 1986, for the larger manufacturers the increase has been higher.

These companies are pinning their hopes on new technology to help them to survive in an increasingly competitive climate.

Clark is still committed to its expansion programme – which involves the construction of its first new production plant in Britain since the 1960s – despite the lack-lustre nature of retail trade.

Similarly the FII Group will continue to pursue the modernisation programme for its plants in South Wales, the East Midlands and Northern Ireland. Mr Monty Sumray, its chairman, is convinced that reducing the labour intensity of the production process through the introduction of new machinery is the only sensible route for the industry.

But the British Shoe Corporation is more circumspect. Having overhauled its shoe retailing interests in early 1987, it embarked upon a review of its manufacturing activities towards the end of the year.

Mr Christopher Marsland, managing director, concurs that new technology is essential for the future of the industry – "but," ha said, "tbe level of investment required is now so high that it would take a brave decision to invest in the current climate."

Alice Rawsthorn

Despite dire warnings from politicians...

Farmers still await budgetary results

WHEN Mr John MacGregor was appointed Minister of Agriculture last June, he promised farmers, in almost Churchillian phrases, a most difficult time. The whole system of open-ended guarantees for food was to be overhauled and surpluses eliminated. Some land would be taken out of farming and other uses would be found for it. Possibly it would provide amenities for the inhabitants of these overcrowded islands.

That was six months ago and farmers are still awaiting a resolution of the budgetary crisis which could threaten both prices and prodoction. But British farmers on the whole seem to be remarkably relaxed about the whole situation.

In the first place they have heard a good deal on the same theme previously – and nothing has happened. They realise that their fellow farmers in the EC have no great fear of their politicians. The reverse is the case, particularly in France and Germany. And until now, British farmers have been quite happy to shelter behind the political strength of their European colleagues.

Financially too, British farmers seem to be very well placed by comparison with, say, US and other overseas farmers. Their burden of debt is not large. The banks say that not more than 10 per cent of their farming customers are in serious trouble.

It is probably true to say that farmers are owed more by the banks than vice versa, a phenomenon which has a long history. This gives them an enormous strength at a time when margins are being eroded. A farmer without debt does not worry about his fixed land costs because they do not actually cost him anything.

It is perfectly true that land prices have been falling recently but as few owners had capitalised on their appreciation these fluctuations have, in the main, passed them by. Even if they have been caught out, the very high prices being paid for houses and buildings in rural areas must have neutralised many of their difficulties. Added to this, a majority of farmers (about 70 per cent) are owner-occupiers which gives them great flexibility and independence in financial matters.

In addition, they have become used to dire warnings which have led to nothing. After the 1984 harvest, which was a good one, 1985 was poor and much of the grain which went into intervention in 1984 was used. In 1986 a good harvest promised a good deal of trouble but a drought in Spain and Southern Europe took care of that.

The 1987 harvest was probably the worst of the decade and there is a definite shortage of quality grain, so prices for what was saved are very good. No wonder they think Mr MacGregor is crying wolf.

Inside this broad picture some sectors are having differing fortunes. When milk quotas were instituted in 1984 dairy farmers thought that the end of the world had come but now they would not be without them. Although quotas have not yet reduced supplies sufficiently over the Community for complete market stability, they have given dairy farmers an increase in equity. In the UK at the moment a quota is worth about £1,600 a cow.

Small wonder, then, that the quota principle is attractive to farmers in other lines of production which could be in over-supply before long. This is not to the taste of the UK Government which does not like the rigidity of a quota system that maintains a high price for the product by means of restriction on output.

Not that quotas as such have been proposed for cereals and meat products. Instead, there are suggestions of a voluntary set-aside of land which would otherwise be sown to cereals. So far, the compensation for farmars taking up these proposals do not seem very generous and they are also rather short-term.

Of longer-term interest is a proposal for planting woodlands with up to 40 years for replanting broad leaved woodlands and hardwoods, which have been disappearing in favour of the universal pine trees. There is apparently quite an interest in this but some landowners question how long the planting grants will last. There is an old phrase to the effect that no Government can bind its successors and a successful hardwood forest would be at least a century in maturing.

It is almost certain that some form of short-term set-aside for arable land will be instituted for the EC as a whole, but it has been trying out a system, in which finance is going to be a national responsibility. Not all member countries agree with this, nor does the EC as it means national rather than Community responsibility.

UK farmers would accept this but there is a marked difference in approach between farmers and the Government. The latter wants the scheme to be voluntary so that farmers will offer their worst land. But farmers on the poorer soils do not see why they should be penalised from growing grain, just because their land is not the best.

Continued on next page

Food production and retailing

A new wave of mergers predicted

PEERING THROUGH the fug of the late 1980s – a mixture of dust settling after the stock market crash and the rising mist of recession – Mr Christopher Haskins, Northern Foods chief, last month forecast a fresh wave of rationalisation in the food industry.

Five years on, he could see both manufacturers and retailers seeking progress in stagnant markets through more mergers and acquisitions. There were still three years or more of growth for multiple retailers in new openings and relocation of existing stores, he said. But the spectre of Britain becoming overshopped and growth slowing, loomed large after that. Possibly good for consumers, it offered a dim prospect for the industry. Mergers followed by rationalisation could improve the situation.

Although more than half the total UK grocery market is controlled by the big five supermarketeers - 66 per cent if the Co-op is counted in - none has more than 15 per cent of the trade, so on present ratings, there could be room for manoeuvre before the Monopolies Commission might put its foot down.

Food manufacturers are already deeply engrossed in restructuring. Rising operating margins - up more than 30 per cent since the start of the decade - amply illustrate the merits of getting out of peripheral areas and concentrating on the basics.

If only to counter the increased might of the new "super-duper-markets," the processors would be under pressure to add muscle by merger. But other pressures are already apparent. The US group General Cinema's stalking of Cadbury Schweppes and Australian Goodman Fielder's harassment of Ranks Hovis MacDougall may come to nothing, but they indicate considerable confidence in the prospects for British food manufacturers.

Bulk may help – RHM, digesting Avana at present, has declared itself in the market for further acquisitions – but performance is likely to remain the best defence against aggressors.

The food industry has seen plenty of performance in the recent past. After years in the merciless embrace of margin-squeezing retailers, during which many of their brands were shoved off the shelves by own-label foods, processors have staged a recovery. Part luck, part strategy, the resurgence taught many useful lessons. Helped along by falling raw material costs, the manufacturers attacked production.

Mr David Lang, analyst at Henderson White Jenkins, potted down the tactics recently: "Wholesale closures of capacity have occurred in milling, baking, dairies, biscuits, confectionery, soft drinks, edible oils and fats, meat, poultry, canning and freezing - to name but a few.

"Since 1976, nearly a fifth of the industry's full-time equivalent workforce has gone. Capital has been substituted. After an average 1980-84 real spend of £581 at 1980 prices, the last three years have seen an average annual outlay nearly a quarter higher.

"Productivity is up 20 per cent in six years."

At the same time, manufacturers have been busy getting rid of non-core activities and buying businesses to strengthen their existing lines or extend their customer base. The RHM purchase of Avana, for example, gave it some handy brands, but the real interest lay in the Welsh company's supply of own-label foods to Marks and Spencer and other leading retailers.

The major processors have come to terms with private branding - unavoidable since about a quarter of all groceries are now sold under retailers' own labels. But the example of confectionery and soft drinks makers, which have successfully defended their interests with heavy promotion of their established brands, has not been lost on the others.

Media spending by all food and soft drink companies rose to £400m in 1986 from less than £350m in 1985 and £200m in 1980. Partly in response to this, and partly because the own-label market may be saturated, retailers' brands have been less buoyant. Asda's late move to introduce such products across the board is believed to have produced less than satisfactory results and Dee Corporation is reviewing its tactics. No such problems at Marks and Spencer, however, where everything is M&S, and a chain of food-only shops is on the launch pad.

According to Mr Tim Potter of Shearson Lehman, the UK food market is dividing into two distinct sectors: the staples where price is the main consideration, and the premium quality area where price is of little importance.

He told a KAE Development conference in London last year that even the staples business offered good opportunities. In bread, for example, where healthy eating trends had fuelled demand for fibre, sales of brown and wholemeal loaves rose by more than 10 per cent a year since 1983, and jumped 25 per cent in 1986 - "not bad for a mature industry," he said.

Healthy innovations, such as fortified white bread of the Mighty White variety, containing whole wheat grains, have more recently given sales and margins a lift. Other stodgy sectors, such as tea, have also revived. Falling raw material prices have helped, but growth has been squeezed out of the business by the introduction of one-cup tea bags and the mass-market promotion of speciality teas like Earl Grey.

The introduction of low-fat sausages and similar derivatives has given a fillip to sales of traditional foods.

The premium part of the market, which is evidently not confined to the southerly half of the so-called North-South divide, is creating excitement...and agitation. Shoppers are happy to pay for convenience, variety and quality. Manufacturers are delighted to make them and retailers to stock them for their added-value components. US sales of frozen meals, ready to eat after a quick blast in the microwave oven, grew 70 per cent between 1984 and the end of 1986. About half US homes have a microwave, and the proportion is expected to climb to 75 per cent by 1990.

Britain is following a similar pattern, and food makers are piling in with increasingly sophisticated concoctions. Sales of frozen meals in the UK are estimated to have increased by up to 20 per cent last year. Penetration of microwaves in the UK is still less than 30 per cent, so processors see plenty of growth there.

There is even more added value in the new generation of chilled convenience foods: ready-to-eat salads or ready-to-heat cooked products. But there are also hazards. Freshness means short shelf lives, and demands particular attention from manufacturers, distributors and retailers. Salmonella infections from food have been increasing steadily since 1981. Dr Bernard Rowe of the Central Public Health Laboratory told a recent conference that the figure of 16,000 confirmed cases in 1986 would probably have risen to 20,000 by the end of last year.

Production costs of complete meals tend to be relatively high, since making and handling these products calls for special skills. High raw material costs - prawns and fresh cream for example - call for strict control at all stages in the chain.

Prompted by their relative affluence and desire for individuality, consumers demand more variety. Seeking profits in times of low inflation, manufacturers are ever eager to innovate to provide it.

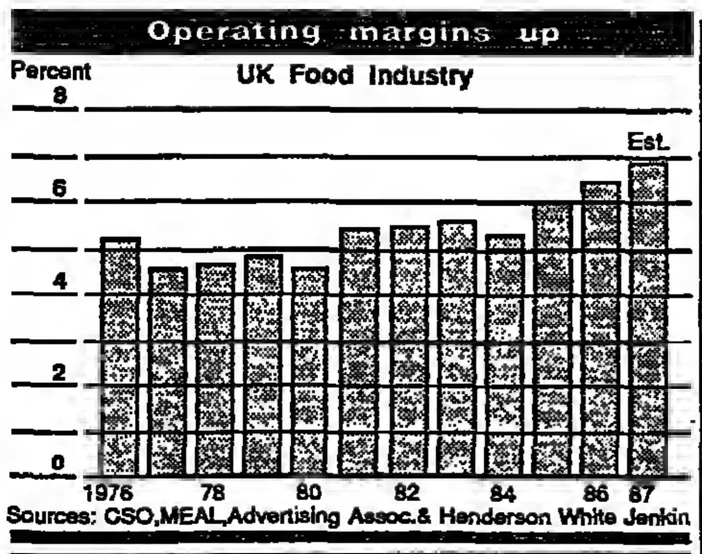
This demands a measure of flexibility which traditional food companies have been slow to develop. Mr Raymond Monbiot, chairman of the UK arm of Campbell's of the US, recently proposed greater use of new technology and robotics. The Japanese were coming, he said in London. They had rolled up one market after another and now they were turning to food.

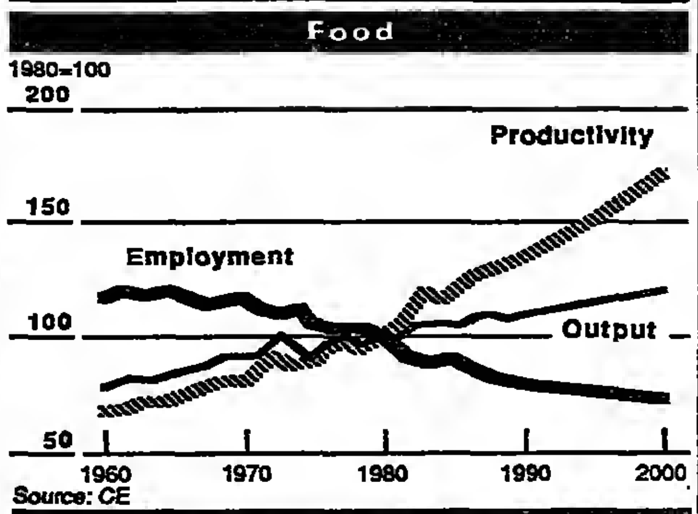
Whether the Japanese have serious ambitions or not, his message was apt: "The British must get used to producing short batches, with fast changeover and low cost production," he said.

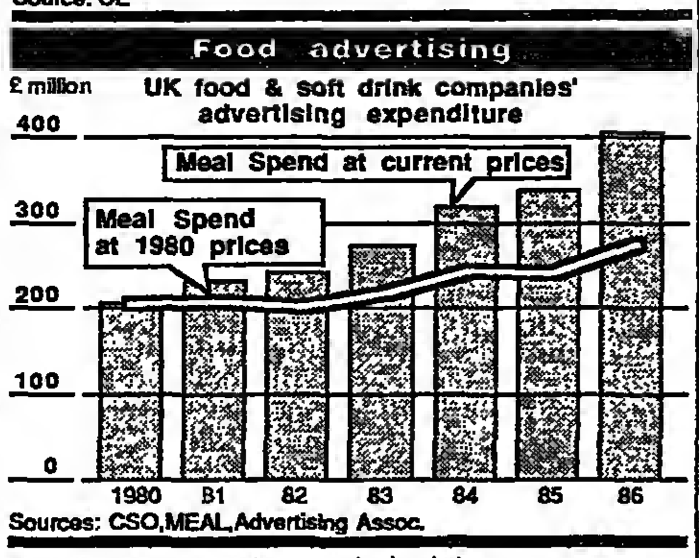
With unaccustomed cash reserves stemming from divestments and improved margins, capital investment in new technology is a likely bet. However, the basic restructuring of the industry still has far to go – from abattoirs, where some estimates suggest there may be twice as many as are needed, to the over-supplied bread business where extensive rationalisation by the market leaders is still frequently undermined by aggressive undercutting by independents.

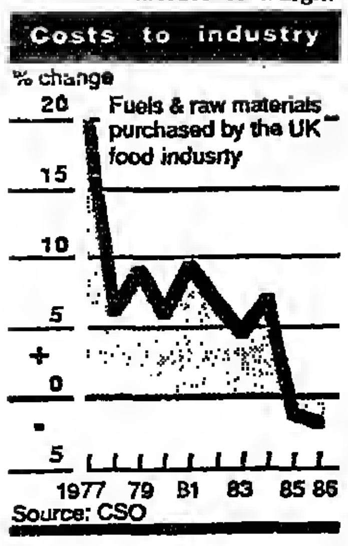
There will be more cutbacks, and the pace of change within companies is likely to accelerate. If it does not, the wave of mergers and takeovers that Mr Haskins mentioned may start sooner than he suggested.

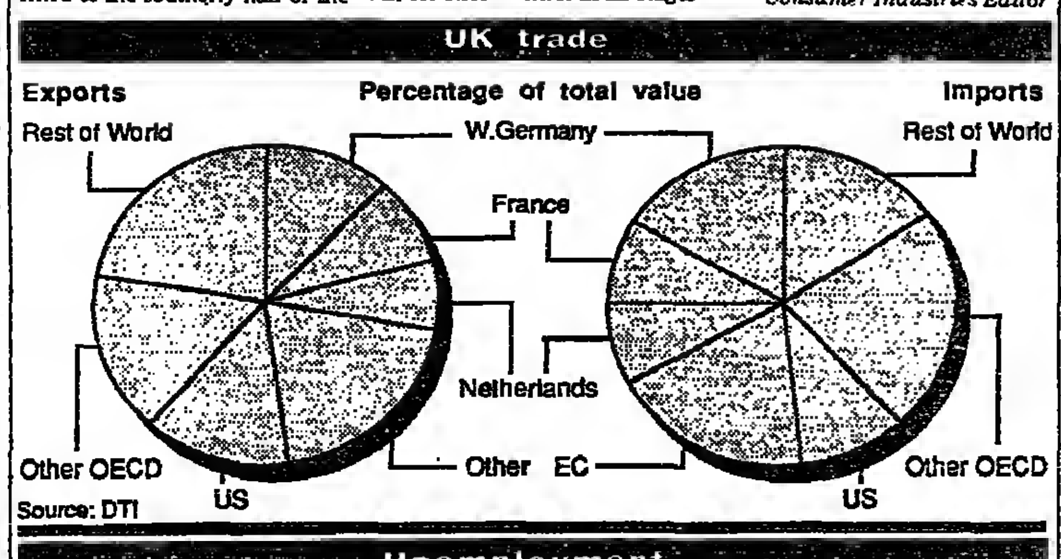
Christopher Parkes
Consumer Industries Editor

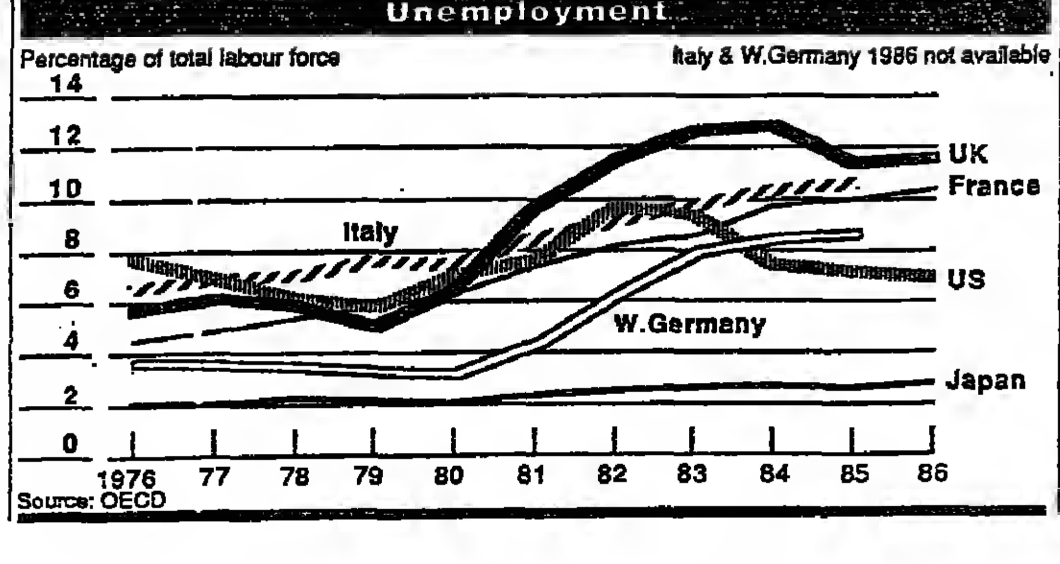












Farmers' prospects

Continued from page 6

In this farmers are being realistic because in practice, particularly for arable land growing cereals, differences in yield between grade 1 and grade 4 soils are not very large. Generally, output reflects the skill of the farmer rather than of traditional soil quality. In spite of the cereal surplus being the obvious problem at the moment, there are signs that worldwide the cereal problem is coming under control, thanks to the US set-aside policy. Consumption this year is more than production for wheat and coarse grains and prices are firming.

There are, it is true, increasing stocks of beef in intervention in the EC but this is a direct consequence of the culling of dairy cows. Overall, cattle numbers are falling and this will affect quantities marketed over the next few years. Some quite stringent restrictions have been placed on returns for oilseeds which could affect the French rather more than ourselves. The stabliser proposals which would attempt to penalise over-production do not seem to have had a favourable reception at the Copenhagen summit and could well come to naught.

But it must be remembered that, when it comes to seeking farm price reductions, the UK is in a minority at the EC. The West Germans and French, in particular, have what seem to them good reasons for maintaining prices at present levels which are at least double those ruling on today's depressed world market. The refusal of these countries to countenance further price cuts may be as good support as British farming is likely to get.

John Cherrington

The brewing industry is braced for big changes

Speculation rises over outcome of 'monopoly' investigation

THE MONOPOLIES and Mergers Commission investigation into the brewing industry could have a profound effect on the sector in the near future by setting new ground rules for its operations.

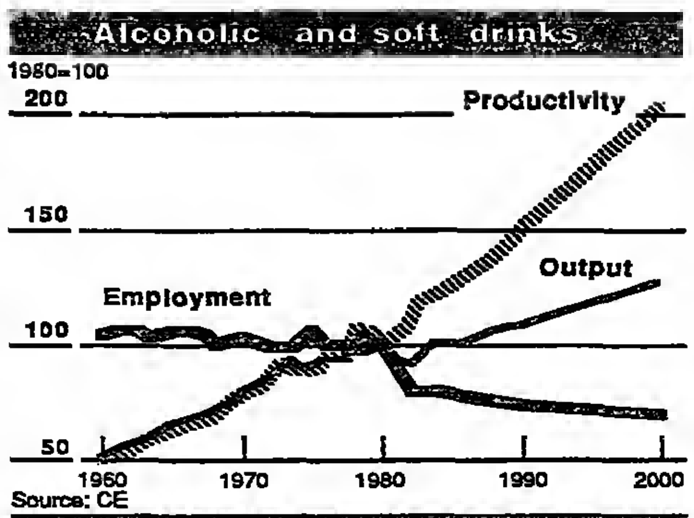
The inquiry, which is examining the "tied house" system, the method by which most brewers sell the majority of their beers in their own public houses, is due for completion in mid-1988.

Speculation has raged within the industry as to the report's recommendations, should it decide that the complex monopoly that the Commission believes exists in the industry is against the public interest.

The worst scenario, suggests the industry, is that brewers could be *forced* to let other brewers' brands into their public houses.

Critics of such a move claim, however, that the effect would be to concentrate more power in the hands of the powerful major brewers who own, or brew under licence, nationally-advertised branded beers.

The MMC inquiry had helped dampen the share price performance of drinks companies since the investigation was declared in August 1986. However, the sector's share price rallied relative to the market after the crash. A flight towards domestic stocks combined with a lack of dollar exposure among the majority of brewers were among the contributory factors.



Why City analysts remain relatively bullish about brewery stocks

Most City analysts remain relatively bullish about brewery stocks. Mr John Spicer, of Kleinwort Grieveson, the stockbroker, says: "Brewers have considerable defensive qualities. However, should the markets sort themselves out, the brewers will under-perform because the City will get more concerned about the MMC inquiry and stagnant beer volumes."

Indeed, in the two rallies on the Stock Exchange since the crash, brewers' share prices have dropped, relative to the market.

Beer volumes have remained stagnant since the early 1980s with few prospects of an increase in consumption in 1988. However, lager has continued to take an increasing share, estimated this year to be over 43 per cent of the total sales for beer.

It is a trend which has benefitted the major brewers which, in addition to having greater resources to develop their public house retailing skills, have much stronger lager portfolios than the smaller regional brewers. A few regional brewers have their own lager brands but, without the tie, it is argued, they would find it difficult to compete against major nationally advertised brands such as Carling Black Label, Castlemaine XXXX, Fosters and Skol.

Most regional brewers are still heavily dependent on their ale brands, with many last year telling of falling sales volume in their reporting of sluggish profit figures for the year. It is a situation which could tempt some family-controlled brewers to abandon brewing their own brands and buy-in other brewers' products, or sell out.

Certainly, further mergers and acquisitions in the industry are likely in the next 12 months. For example, Wolverhampton & Dudley, the West Midlands-based brewer, with gearing at less than 3 per cent, is poised to strike, should an opportunity arise.

Other regional brewers tipped by the City to be looking for acquisitions include Boddington's, the Manchester-based brewer and Greene King, the East Anglian brewer where Elders IXL, which owns Courage, the major brewer, has a 12 per cent stake.

Whether or not Courage, with plans to make its Foster's brand the best-selling brew in Britain, could acquire a regional brewer is debatable. A recent MMC inquiry into the first bid for Mathew Brown by Scottish & Newcastle Breweries, said there could be a strong case on public interest grounds against any of the five major brewers acquiring a regional brewer.

However, if Courage floated off its public houses in 1988, as it proposed last year, the brewer might be able to buy a regional company.

Three of the seven major brewers also have sizeable interests in wine and spirits with large acquisitions in 1987 consolidating the position of British companies among the major world players in the international drinks market.

It is unlikely that major companies such as Guinness, IDV, the wine and spirits subsidiary of Grand Metropolitan or Allied Lyons, which has now acquired 100 per cent of Hiram Walker, the Canadian drinks company, will make further major international acquisitions of drinks companies.

Instead, 1988 could see smaller bolt-on acquisitions which would provide these companies with brands to complete their drinks portfolios. Major acquisition efforts by Allied-Lyons and Grand Metropolitan, with its Express Foods subsidiary, are more likely to be in the food area.

Scotch whisky remains the single largest spirits export from the UK with 1987 showing only a slight recovery in sales on 1986. However, according to Wood Mackenzie, the stockbroker, price increases planned by Guinness for early 1988 will provide a tonic for the industry.

Mr John Dunsmore, of Wood Mackenzie, says: "Most Scotch exporters will follow suit in implementing similar rises. For the past couple of decades the industry has been constrained by the ultra-conservative pricing policies of Distillers (acquired by Guinness in 1986) which meant that Scotch has been losing ground in real terms against other spirits, particularly cognac. The move by Guinness is the first step in reversing this trend."

Mr Dunsmore says that higher prices could put a break on volumes, but would produce a marked improvement in the volume/value ratio and therefore in the profitability of the whole industry.

And while analysts predict a continuing downturn of spirits sales in the US – one of the world's largest markets where the anti-alcohol lobby has bitten hardest – they forecast compensatory growth in Europe and the Far East where Western spirits have cachet.

It is still unclear how the industry will be affected in the long term by the anti-alcohol lobby which is bearing its teeth in the debate over more flexible licensing laws and its impact on consumption.

The UK industry has yet to take the initiative here and demonstrate that drinking in moderation is not synonymous with alcoholism. Ironically, it is the foreign-owned Courage which launched a Christmas campaign urging Britons not to drink and drive.

Lisa Wood

UK INDUSTRIAL PROSPECTS 8

FT writers examine the prospects for the advertising industry and several key companies in other sectors

Some of the leaders whose agencies have flourished with the expansion of the UK advertising industry: from the left, Charles and Maurice Saatchi; Robin Wight of WCRS Group; Frank Lowe of Lowe Howard-Spink; and Martin Sorrell of WPP Group.

Advertising is keeping a wary eye on business confidence

Growth likely to slow down

OPTIMISM MAY seem misguided in the wake of Black Monday, but the UK advertising industry is counting on a prosperous enough 1988.

Most people in the business predict that, after 11 years of vigorous growth – save for a blip in 1981 – advertising expenditure will continue to grow, though at a lesser rate. As far as anyone can judge therefore, the net effect of the stock market downturn will be to temper the advertising spiral.

The Advertising Association, which has monitored industry progress through both fat and fallow years, warned of a crash in its September forecast of advertising expenditure to mid-1989. But it has since shaved its figures down only a fraction. For 1988, Mike Waterson, the AA's research director, expects a reduction of one quarter of a percentage point to 4.5 per cent growth in real terms of advertising expenditure. (This follows a growth rate of 11.3 per cent in 1986, which brought revenues to a record £5.1bn.)

Mr Waterson bases his figures on the current health of the UK economy. One of the best thermometers of this, he says, is job recruitment advertising which is "booming as never before."

He adds the rider, however, that should the economy be hit, then inevitably ad revenues would suffer, since "advertising is unquestionably linked to economic activity." One of the real dangers in a sustained stock market fall is the loss of business confidence it inevitably brings in its train. This makes it increasingly hard for companies to raise capital and the Government to raise cash. Such effects could spill over and cause economic downturn, the AA warns.

Consumer expenditure, which along with company profits is regarded as the barometer of advertising health, is also expanding. The annual growth rate of about 5 per cent is comparatively high, says Mr Waterson, though it is unlikely to continue at this level.

Many leading advertisers appear to echo this positive mood, although so far they have been tested in theory only. The real proof, according to many agency chiefs, will come in the spring when budgets are reassessed.

A Mori poll, conducted among 53 top marketing and advertising directors and published on November 27 by *Campaign* magazine, ended on an upbeat note. Two-thirds of those questioned predicted the economy would improve in the coming year. Nearly seven out of 10 said their company was prepared to spend more on advertising in the next 12 months. And the bigger the company, the more likely it appeared it would increase its advertising budget, though less likely to support public relations, sales promotion, design and market research. More than half the directors thought sales would remain static and a quarter expected a small increase.

City observers argue that advertising is becoming more recession-proof. Events over the past two recessions, in the early 1970s and 1980s, suggest that fierce cutbacks are unlikely.

"Advertising has become an essential ingredient in marketing with the power of retail and self service," says Paula Shea, analyst with stockbrokers Hoare Govett. "It is vital for manufacturers to keep their messages in front of both retailers and consumers."

Many consumer goods producers have learnt the lesson of the "leaky bucket" theory. This implies that a company's customer pool is constantly dropping out of the bottom of the bucket and in need of marketing attention to keep the level topped up. Companies which failed to advertise in the 1970s saw their consumers fall dramatically and learned that tempting them back was costly and far from instant. In that crisis, they were obliged to turn to sales promotion, that instant shifter of products.

More likely to be cut before advertising are other marketing services, public relations and market research, Ms Shea maintains. And even if the outlook does turn bleak, advertising is one of the quickest industries to trim its sails accordingly. This became clear in the 1970s recession when revenues tumbled by 24 per cent and hundreds of employees were forced to leave the business.

The 1981 downturn was another story. The cuts then were worst in capital goods companies which shed staff, rather than in advertising budgets.

Today, the effects of a recession, should it happen, would be different again, say industry commentators. Mr Neil Blackley, analyst with James Capel, believes that the spread of advertising is much wider now, and this reduces the risk. "Where once consumer goods accounted for the bulk of revenues, new sectors such as office equipment, pharmaceuticals, corporate and government have grown and expanded their share of the cake." He maintains that marketing executives are also more sophisticated in their view of how advertising works.

Given a downturn in advertising fortunes, most forecasters believe that the first to suffer will be financial product advertising, privatisation issues and corporate advertising. "People won't cut the basic bread and butter of advertising, the fast-moving consumer goods, because manufacturers are moreaware of the enormous importance of brands," says Mr Mark Sheppard, analyst with Phillips & Drew. This point has been drummed home by the hectic takeover activity of the last couple of years when brands have been the target.

For agencies, the effects of the stock market crash will be to curtail their acquisitive instincts, which many observers felt was taking their eyes off the main core business – "a lot of managements, which have only ever known the good times, are going to be tested," says Mr Shepperd.

While UK agencies across the board report no real cutbacks in budgets for 1988, many feel that 1989 could bring the real test, however.

Whatever the soothing words from some forecasters for the moment, many eyes will be firmly fixed on the US, where belts are already being tightened. According to *Adweek*, the trade magazine, the big agencies have cut staff by 10 per cent, on average.

As for the US outlook, Bob Cohen, senior vice-president of McCann-Erickson recently predicted a 9 per cent (in real terms) growth in total spending on ads, a reduction of half a per cent on pre-crash estimates. So the message of growth, if dimmed, is constant on both sides of the Atlantic.

Feona McEwan

Assets redeployed to help finance regeneration

Uplift for Woolworths

IT IS now five years since the Paternoster takeover of Woolworth – when institutional investors, tired of the continuing decline of the company, combined in a £310m buy-out and brought in new management.

Since then, massive changes have been wrought on a business which had seemed almost past saving. And while the restructuring of Woolworth is not complete, and in a sense never will be unless it atrophies again, the progress made has earned its shares a rating far above that at the time of the takeover. The group is now capitalised at over £1bn even after the stock market crash. Perhaps more significantly, shareholders last year were prepared to back Woolworth against a hostile bid worth £1.8bn from rivals Dixons.

The key to the changes at Woolworth is perhaps the attitude of the management to the original Woolworth high street chain. That chain was not sacred and where its assets could be used better they should be redeployed.

The value of those assets was such that, although Woolworth was earning a minimal return on them at the time of the takeover, they could be used in part to finance the regeneration of Woolworth.

It is now only one part, though still the most important, of a group of retail chains. Mr Nigel Whittaker, the group's director of corporate affairs, speaks of the company almost as though it were a diversified industrial group.

The various chains are "retail brands" which need to be developed and are at different stages of maturity, though all with strong market positions. The Woolworth group is wedded to none of them. New brands are being tested and expanded to take up the running as others mature.

The approach is not that of traditional retailers but of professional managers. There is no attempt to justify the group by resorting to the word synergy or to suggestions that a central design team should set a formula linking all the chains. Each one is distinctive with its own strategy.

The most profitable of the chains, in the financial year ended January 1987, was B & Q, the D-I-Y stores. The basis of this business had been acquired by the old Woolworth management.

Here an aggressive competitive stance is being adopted in time for the saturation of the market which Mr Whittaker foresees in two years' time. "We must win the end game now," he says, listing plans to expand, increase the marketing effort, develop an own brand and improve efficiency by putting electronic point-of-sale equipment in all the stores. According to a recent report by Verdict Research, the retail analysts, B & Q's market share is well ahead of any of its rivals.

Comet, the electrical chain Woolworth acquired in 1984, now holds second place in market share terms, thanks to the recent purchase of Ultimate from Harris Queensway.

Last year Woolworth bought Superdrug, the fast-growing US-style drugstore chain. Here the link with another part of the group is more important. For while B & Q and Comet are sited out-of-town, Superdrug shops trade in the high street.

This enables the Woolworth chain to get rid of excess space, often in the oddly shaped sites which are a legacy of the company's long history. Mr Whittaker offers the example of the Woolworth store in Abingdon where 30 per cent of the space was turned into a Superdrug shop, while Woolworth retained 90 per cent of its former business in a smaller area.

The Woolworth chain itself has such an engrained image in consumers' minds that changing the formula must be a slow process. Phase One of a strategy dubbed "Focus" has now been completed with the reorganisation of the merchandise from a confusing multitude of lines into six broad categories, in many of which Woolworth is market leader.

Phase Two will give Woolworth a portfolio of stores where the formula can work profitably. Woolworth does not succeed in large sites.

Mr Whittaker explains: "Woolworth is not a format we would invent today. It is not one for the year 2000. But it is the one Paternoster bought five years ago and one which has been made very profitable."

Woolworth's huge property portfolio – worth around £800m – can now be put to better use. Indeed, Woolworth expects to generate continuing profits from property rental and development.

Mr Archie Norman, the group finance director, lists examples of deals being done. A 40,000 sq ft store in Southampton, plus other space from its stockroom, will be flattened to make way for a £30m development of a 110,000 sq ft shopping mall, making profits for Woolworth of "a few million".

Similarly, a 45,000 sq ft store in Milton Keynes is being reworked to give a 20,000 sq ft Woolworth store and four others, this time for a profit Mr Norman puts at "several million".

At the same time, all stores within the group are charged a market rent by the property company, an important discipline for the retail businesses.

So far the stock market fall seems to have had little effect on consumer confidence, with Christmas widely believed to have been another record.

Even so, says Woolworth, the crash has had the effect of crystallising in people's minds events which might have happened anyway.

The effect this has had on expansion plans has not been great but Woolworth has slightly raised the hurdle rate which capital spending projects most exceed to get the go-ahead. As a result, spending will be a few million pounds less than planned. And the cash-generating propensities of retailing will be more important than ever.

Maggie Urry

IN 1987 T&N changed its name from Turner & Newall. While the change made official a common shorthand for referring to the building materials and engineering group, it was appropriate because T&N is not the same company that nearly collapsed earlier in the decade.

T & N

Progress continues

Under the leadership of Sir Francis Tombs, who chairs T&N and Rolls-Royce, T&N has been transformed from an asbestos mining and building materials group to an engineering company producing largely for the automobile industry. This transformation took a big step forward last year as T&N began to integrate AE, the automobile parts engineering company, after a bitter takeover battle at the end of 1986.

The purpose of the takeover was to improve the quality of T&N earnings by reducing dependence on Africa and taking it further out of the cyclical building industry.

That was achieved, although at a high cost. Analysts are still debating precisely the extent to which the issue of new shares in connection with the takeover has diluted T&N's earnings. When interim results were released in September, Sir Francis said this dilution was minimal.

Still, that is history. More important is the progress T&N reports in bringing AE under its own management discipline.

AE was a respected company known for its high technology applications in the motor industry, where it was a major supplier of light pistons. T&N, by contrast, worked in the somewhat lower and very different technologies of brake system products, including linings.

During the bid period, one of the most serious red flags was raised by General Motors, a major AE customer, which expressed concern that the quality of AE products could be affected under a new owner.

With the first interims behind him, Sir Francis emphasises that the GM relationship is strong and growing, with new contracts for the Buick and Cadillac divisions.

Early reports on progress in integrating the AE businesses are fairly encouraging, although this is an area in which only the long run will provide the answer.

Most of the AE management has stayed on. By the end of 1987, the unbolting of AE's tightly centralised management structure had been virtually completed. Management controls and most research and development activities have been devolved to the operating divisions, while a central R&D centre has been established at Rugby for group-wide projects. Total R&D spending has not been cut, as had been feared.

The task ahead is to continue improving the operating performance of the AE subsidiaries. Manning levels have reduced, with a net loss of 350 jobs. Turnover per employee has also risen. At Wellworthy, which produces pistons, piston rings and cylinder linings, this figure rose nearly 10 per cent from £20,800 to £22,700, with a target of £30,000.

Critics of the takeover had argued that no marketing advantages would accrue from combining the two very different automotive engineering businesses of AE and T&N. With the major automotive producers contracting out for more and more supply parts for different parts of the vehicles, there was no particular advantage in offering a complete line of products.

While there is no evidence that the order book has increased as a result of the takeover, Sir Francis reported that £1m was saved in the first half year on transportation costs alone.

There is clearly much work to be done, all of which will take place under the cloud of T&N's continuing potential liabilities for asbestos-related claims. The scale of the claims lodged against the company in the area of property damages is staggering – $75m in compensatory and $100m in punitive damages from Prudential Insurance of America alone, for the Prudential Center in Boston. Chase Manhattan Bank is suing T&N for $170m.

T&N argues that it can defeat most of these claims and it has recourse to insurance protection in any case. Yet the cloud will take a number of years before it clears away and the bill for defending against these claims will be huge.

Steven Butler

GEC

Flurry of activity fails to lift unease

IN THE 1970s, the General Electric Company was one of the most admired companies in Britain. Its managerial methods were revered and copied: its structure was regarded as a model for a diversified industrial group; its tough approach to managing its workforce and its assets were seen as highly successful in a period of deep labour unrest; and the creation of its famous cash mountain was widely approved during a time when financial assets could easily earn more than manufacturing capital.

Today, the perception of GEC is very different. Indeed, in the past three years or so, the company has beeo subjected to a number of reversals. Its profits have stagnated, its reputation with stock market investors has been hit, and its record as a company with a sure touch in the takeover market suffered a serious setback with the collapse of its hostile bid for Plessey.

Even worse, its standing as one of Britain's most efficient manufacturers was undermined by the Ministry of Defence's decision not to go ahead with the proposed new Nimrod airborne early warning radar project.

Since the Nimrod affair, however, a new growth strategy has begun to emerge at GEC. The company has made it clear that it has not ruled out the big, blockbuster type of takeover - the sort of deal it was planning with Plessey - that would radically change the shape of the group at one blow. But in the absence of suitabls candidates for large-scale acquisitions it has given the green light to its divisions to chase after transactions that would give them more weight in their own markets.

This shift towards more emphasis on division-led acquisitive growth has been accompanied by a new enthusiasm for the alliance concept that has become fashionable elsewhere in industry. The company has shown itself increasingly willing to stop short of outright control, accepting a half-share in businesses where such collaboration will yield the potential of additional markets or more effective research and development.

Among the long list of agreements struck since this policy began to take effect are:

■ The joint telecommunications company set up with Plessey. This company, still in the process of reorganisation, will bring together all the private and public switching interests of the two groups.

■ The collaboration agreement with Philips of Holland to combine the two companies' medical equipment activities. The joint business will have a strong base in the US through GEC'a Picker company, and an equally influential position in Europe through the Philips activities.

■ A $205m expansion in the US defence electronics field through the acquisition of Lear Siegler's astronics division. GEC will more than double its US military business with this deal, to sales of about $300m.

■ The $250m *purchase of the* Gilbarco petrol pump and service station equipment manufacturing group in the US. This deal will give GEC a further entree into the fast-expanding market for electronics-based equipment and services at petrol stations.

■ The acquisition of a controlling interest in the measuring equipment business of Berkel in the Netherlands.

■ A £16m acquisition of the Micro Scope software group.

■ Hotpoint's £126m purchase of the Creda domestic appliance division from the TI group.

■ A joint agreement with a group of American companies on the development of a new aero engine for the commuter turbo prop market. The project, under the leadership of General Electric of the US, brings the UK company together with Garrett, Textron and Bendix.

Despite this long list of transactions, there is no sign that GEC is thinking of closing the lid on new initiatives just yet. Indeed, the company is currently negotiating a further deal with Plessey in semiconductors; and its recent disposal of its Dorman diesel engine group has been followed by suggestions that there may be more asset sales on the way. At the same time, the company has been quietly regrouping some of its divisions, bringing together similar activities - its Marconi defence business and the aviation activities, for example - into larger organisations.

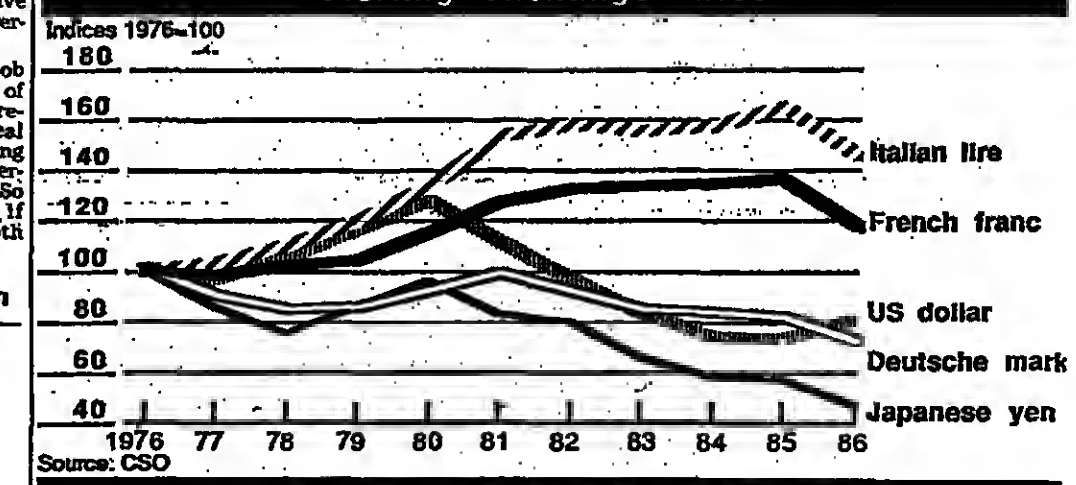
For a while, this flurry of activity gave GEC a boost in the stock market. After four years in which the company's shares had declined relative to the market as a whole, the price surged strongly in tha summer into a new trading range. But even before the sharp October setback in the financial markets, the ahares had begun to struggle again. Investors appear unconvinced that the company has yet found the secret to a new era of earnings growth.

Indeed, there is a strong feeling *among some investors* that the company is locked into markets which are unlikely to yield anything out of the ordinary in earnings growth over the next few years.

Both margins and volume, they argue, are under pressure in the defence sector; GEC and Plessey face fierce competition from a number of larger companies in the telecommunications field; in the power engineering area, the placing of big new power station orders appears to be some way off; and none of the growth areas in the rest of the business - such as, for example, the Hotpoint domestic appliance division - is large enough to offset the slow growth in the dominant activities. Investors taking this view would still like to see GEC make a splash on a large takeover that would eat up some of its £1.8bn of cash.

Terry Dodsworth

Sterling exchange rates



Source: CSO

British & Commonwealth

Ready for a year of consolidation

IN MARCH, when British & Commonwealth Holdings transfers its City head office from St Mary Axe to King Street, Mr John Gunn at last will feel master in his own house.

This conclusion may be surprising, considering that few watchers of the sprawling financial services and industrial holding company can resist at least an occasional lapse into the over-simplified personification: B&C = John Gunn.

But the move will be *more* than geographical. The psychological importance of leaving the panelled corridors of Cayzer House, where the spirit of B&C's former dominant shareholding family lingers on, even though the stake they control was reduced in 1987 to less than 5 per cent, should not be underestimated.

More importantly, B&C's redevelopment plans for the prime St Mary Axe site – with an unimpeded view of the new Lloyd's building – illustrates one sector, property, which is likely to be high on the group's agenda for expansion *this year*.

In genaral, however, B&C expects a year of consolidation, but the the concept is relative. Selective disposals are higher on the agenda than acquisitions, but B&C – as ever – will have its eyes peeled for the main chance.

The group is unlikely to match tha pace of *activity in 1987* which saw the successful £545m break-up bid for Mercantile House Holdings and the opportunistic post-crash takeover which valued B&C associate Abaco investments at £185m.

The long-term strategy, however, has not changed since Mr Gunn took over as chief executive 15 months ago (he became chairman last July) and promptly bought Exco, the money broker which he had co-founded but quit abruptly in 1985.

B&C will continue its expansion into financial services and property, using the cash flow from non-financial interests which are being rationalised and knocked into shape.

By end of the decade, markets and economic conditions permitting, the industrial companies within Bricom – a free-standing unit created last year – are likely to have been sold off.

The division includes the Bristow Helicopter Group, a majority stake in Air UK, the Steel Brothers construction materials and engineering company and *holdings in other transport services*, industrial and office equipment concerns.

The intention is to float Bricom as a package – its estimated worth of £400m is nearly one-third of B&C's market capitalisation – although piecemeal disposals cannot be ruled out.

This will complete the evolution of a company whose profile is still so low that it finished near the bottom in name-recognition wben fund managers, stockbrokers and the man in the street were asked last year to identify the main business of Britain's 100 largest companies.

The anonymity, however, was understandable. Arguably, B&C has only recently begun to have a main business again after several decades as a sleepy family-controlled holding group, with a bit of this and a bit of that replacing a shipping fleet that dwindled, finally to nothing, with the *British Empire*.

That main business now includes, in addition to Exco and Abaco, the Gartmore and Oppenheimer fund management groups (the latter acquired with Mercantile House), a merchant bank, a majority stake in the Irish-based leasing company Woodchester Investments, as well as one in Stock Beech, the Bristol stockbroker which is unlikely to be B&C's only venture in this field at the end of 1988.

The purchase of US-based Oppenheimer was not as badly timed as it appeared. Strong in money market and bond funds, and only 40 per cent invested in equities in mid-October, it was bought to hedge Gartmore's equity-management exposure. "We didn't wish to be proved right," Mr Gunn says.

B&C *plans to increase its* venture capital activity this year. It is likely to free funds for this by disposing of some of its listed investments. This will also have the merit of contributing to a general "tidying up" of B&C's holdings.

The crash-delayed flotation of London Forfaiting, the trade finance company 85 per cent owned by B&C, should proceed early in the year. Milestona Leasing and parts of the Kaines commodities trading operation, which lost millions on copper contracts in 1987, are also believed to be on the block.

The Abaco acquisition, meanwhile, holds few precedents for other B&C associate companies. In the waka of the crash, Abaco was not going to be able to continoe its acquisition by share issue, and so welcomed the security that came with the loss of independence.

It remains to be seen, however, whether Abaco's peculiar brand of motivating its managers (the former owners of estate agents, chartered surveyors, insurance brokers, loss adjusters and other fee-based professional services) will survive the eventual end of the "earn-out": performance-related issue of shares.

In December, B&C signalled that its own immediate expansion was unlikely to be funded through equity, with a £100m domestic UK issue of 25-year loan stock.

The City's faith in Mr Gunn has rarely wavered, but it will welcome a slight pause for breath. It is also beginning to get the picture that B&C's management is more than one man, recognising the merits of the team Mr Gunn brought into the company, chief executive Mr Peter Goldie and Exco chairman Mr Richard Lacy in particular.

Clay Harris

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Monday January 4 1988

THE EUROBOND MARKET

Long-term placing power emerges as key to survival

"This was a time of deep depression in the Eurobond market, barely any trading or issuing houses were making a profit and several trading houses closed their doors completely. Others did not even bother to pretend that they made genuine two-way prices any more, but would deal only on a negotiated basis." The year being described here was not 1987. It wes 1974.

As Mr Ian Kerr, a Kidder Peabody executive, observed in his 1984 History of the Eurobond Market, published by Euromoney Publications, the market feared imminent death in those dark doys. First, investors had lost faith in the dollar fixed-rate bonds which had been the market's mainstay. Second, the Arab-Israeli war of 1973 and the oil price rise had created inflationary fears and drastically weakened stock markets. Third, an inverted yield curve created a negative cost of carry which discouraged holding bond inventories.

To top all this, the US Interest Equalisation Tax, wbich had been thought to be fostering the Eurobond market's growth at the expense of the Yankee bond market, wes repealed in 1974.

In that year, Eurobond new issue volume dropped to its lowest level for seven years: just $1.9bn, compared with the record $5.5bn in 1972. But the market did not die. New issues in 1975 surged to $8.8bn.

In 1987 – a bad year throughout, not just in the latter stages – the mood probably became more gloomy than in 1974. Houses closed their Eurobond operations. Profits were thin or non-existent. Secondary market liquidity was in question. There was widespread disillusion with dollar bonds. New issue volume dropped. Stock markets crashed.

But Eurobond new issue volume was $143bn, still an impressive total even if it was 22 per cent below the record $182.5bn of heady 1986.

Clearly, the most important difference with 1974 is one of scale. The Eurobond market is huge by comparison with its earlier days and is thus likely to be even more resilient in tougher times. But its extraordinarily rapid growth has also made its players vulnerable.

Though many domestic markets have been deregulated, the freedom of entry into the Eurobond market remains unparalleled even after the UK Financial Services Act comes into effect this year. Anybody has been able to set up a Eurobond operation. And since the market's recent growth has coincided with the vogue for globalisation of financial markets, almost everybody did. It was an easy way to suggest that you were an international securities firm. Commercial banks particularly needed to do this because they faced the dismantling of long-standing corporate relationships as their customers headed away from bank loans towards the securities markets.

This and the unsustainable explosion in new issue volume created huge overcapacity. A shake-out in the Eurobond market was already occurring before the October stock market crash. Now, financial firms have an even more pressing need to weed out unprofitable operations.

The widespread expectation is that many more closures and redundancies in the Eurobond market will follow those of 1987. Two banks which featured in the 1985 table of the top 20 lead managers – Orion Royal and Lloyds – have quit the market. 1988 can be expected to produce other prominent departures from issuing and trading, as well as many quieter drop-outs by houses which never had a properly thought-out commitment. Hardier participants will consolidate their positions as they have done before.

Poor liquidity has been cited by trading firms for quitting the market, and institutions have also voted silently on this point by abandoning Eurobonds and investing elsewhere. A liquidity premium has developed. Lots of trading firms should, in theory, create lots of liquidity. But no market can exist for long if it is simply a pass-the-parcel game. There simply were not enough borrowers and investors to keep all would-be players going. The survivors will be those that have long-term placing power.

Problems in trading have been highlighted by the sudden drying up of liquidity in certain sectors during the year, such as floating-rate notes and corporate Eurobonds, amid uncertainty about the US-Netherlands Antilles tax treaty. The large traders meanwhile refused to have an automated screen quotation system which would improve market transparency.

But liquidity difficulties should not be over-emphasised. The market has never been particularly liquid except in large key issues – nor indeed are government bond markets except in benchmark issues. In any case, as CSFB points out, the liquidity of a corporate Eurodollar bond should not be compared with that of a US Treasury, but with that of a US domestic corporate bond. "In such a comparison, the Eurodollar market emerges quite favourably."

Some of the beneficial effects of the shake-out have already been seen. Many issues were made in the latter part of 1987 with eminently sensible pricing and were well absorbed. The days are all but gone in which borrowers could win any terms they liked through suicidal bidding for mandates and syndicate members would come into loss-making deals to maintain a relationship with the issuer.

There have also been indications that there is still a role for Eurobond issues even though barriers between domestic and international markets have been breaking down. West Germany's intention to impose a 10 per cent withholding tax from next year has boosted international demand for D-Mark Eurobonds by comparison with domestic bonds. Japan's plans to tighten its application of withholding tax have dried up international liquidity in certain types of government bond and increased the attractions of Euroyen bonds for foreign investors.

However, the offshore nature of the Eurobond market is overshadowed by an important threat. This year will see the imposition of the UK Financial Services Act. It has already imposed, and will continue to, an entirely new set of costs and constraints on a Eurobond market fighting for profitability. But the dissension which has been latent among Eurobond market participants – those in London essentially prepared to go along with UK regulation, those elsewhere seeing no reason why they should – seems likely to break out into the open as rules are actually introduced.

Not all sectors of the international bond market have been languishing in 1987. The Swiss franc market – not included in our tables – has been flourishing with over 400 foreign bond issues worth more than $23bn, virtually unchanged on 1986. The sterling sector has also had a good year, pushing S.G.Warburg and Baring Brothers up the tables.

In a year dominated by the Japanese houses - helped by the strength of the yen and by equity-linked bonds – the durability of CSFB and Deutsche Bank is striking. Dresdner Bank has re-emerged as a force. Though several of the US houses have held on to high positions, Merrill Lynch, which came second to CSFB in 1985 and ninth in 1986, has dropped just out of the top 20, according to the data from IDD Information Services. Shearson Lehman – from 13th to 28th – and Societe Generale are the others to have slipped.

The positions of most of the top players are considerably bolatered by equity-linked bonds, which totalled nearly $37bn. More than that, many of the leading houses have devoted considerable capital to developing equity activities on the argument that, with the globalisation of markets, equities would soon become as internationally traded as Eurobonds. The crash of 1987 has put that strategy on the line.

Meanwhile, Nomura has established itself as the premier Eurobond house. Its 13.4 per cent market share is almost as large as CSFB's 14.3 per cent in 1985. Mr Hiroshi Toda, the syndications chief who led Nomura's drive and has now returned to Tokyo, has left behind a challenge.

Alexander Nicoll

TOP 20 EUROBOND LEAD MANAGERS

Manager	1987 $bn Amount	1987 Rank	1987 Market share %	1987 Issues	1986 $bn Amount	1986 Rank	1986 Market share %	1986 Issues
Nomura Securities	19.200	1	13.4	122	14.803	2	8.1	131
Credit Suisse First Boston	9.400	2	6.6	75	20.012	1	11.0	103
Deutsche Bank	8.232	3	5.8	68	12.444	3	6.8	91
Nikko Securities	8.020	4	5.6	58	5.141	10	2.8	54
Yamaichi Securities	7.851	5	5.5	74	4.440	12	2.4	59
Daiwa Securities	7.552	6	5.3	70	8.963	5	4.9	86
Morgan Guaranty	5.342	7	3.7	46	9.846	4	5.4	65
Morgan Stanley	5.187	8	3.6	36	8.674	6	4.8	72
Salomon Brothers	4.461	9	3.1	36	8.235	7	4.5	54
Banque Paribas	4.453	10	3.1	42	7.002	8	3.8	66
Industrial Bank of Japan	4.169	11	2.9	41	3.034	16	1.7	25
S.G. Warburg	3.926	12	2.7	36	2.788	18	1.5	24
Union Bank of Switzerland	3.257	13	2.3	26	4.874	11	2.7	46
Commerzbank	2.754	14	1.9	28	2.713	19	1.5	39
Dresdner Bank	2.277	15	1.6	20	1.695	30	0.9	16
Swiss Bank Corp.	2.149	16	1.5	24	2.886	17	1.6	23
Goldman Sachs	2.139	17	1.5	19	3.621	14	2.0	22
Baring Brothers	2.066	18	1.4	17	1.745	29	1.0	11
LTCB of Japan	2.001	19	1.4	15	2.678	20	1.5	23
Bank of Tokyo	1.796	20	1.3	17	1.345	31	0.7	15
Industry Totals	142.997			1,377	182.552			1,621

Note: Full credit given to book runner. Source: IDD Information Services

EUROBOND ISSUES BY CURRENCY

1987 Rank	Currency	Total raised ($bn)	No.of Issues	1986 Rank	Total raised ($bn)	No.of Issues
1	US$	59.919	496	1	114.710	826
2	Yen	23.530	165	3	18.120	160
3	Sterling	14.436	117	4	10.605	79
4	D-Mark	14.265	128	2	20.043	179
5	A$	9.180	192	7	3.561	91
6	Ecu	7.455	70	5	7.104	81
7	C$	5.996	93	6	5.179	87
8	FFr.	2.074	19	8	3.476	46
9	NZ$	1.494	27	11	0.561	15
10	DKr	1.407	32	10	1.120	27

Source: IDD Information Services

SAUDI BORROWING

Riyadh decides to end 25 years of abstinence

A NEW government securities market will open this year in Saudi Arabia, though it is still unclear what form the bonds will take and who will be able to buy and trade them.

In an important break with tradition, Mr Mohammed Abalkhail, the Saudi Arabian Minister of Finance and National Economy, announced last week that the Government would issue SR30bn ($8bn) in debt instruments to help fund a $10bn deficit on the $37.65bn budget.

The projected budget gap is lower than 1987's but follows years of deficits which have been partly financed by using up reserves. These in turn are less strong than in the past as oil revenues decline. The Government has thus decided to end its 25-year abstinence from borrowing. So far, there is no indication that it might tap foreign markets.

Publication of details of the bonds is being forbidden by the Government, which indicates that it already fears a backlash from religious conservatives. The Kingdom's capital markets are extremely underdeveloped and that is the way the conservatives like it.

The conflict is linked to the old bugbear of Saudi finance: interest. Saudi Arabia operates according to Islamic Sharia law, which expressly forbids the giving or taking of interest.

Bankers expect the Government to get around the interest problem by offering bonds on a discounted basis, after the fashion of the Bankers Secured Deposit Accounts (BSDAs) offered in 30, 91 and 180-day maturities by the Saudi Arabian Monetary Agency (Sama).

BSDAs have been offered to banks since early 1984. Initially, the rates offered on the discounted notes were not competitive and banks could not resell the notes. Now, rates are somewhat better, banks can trade the notes, and the Government offers a repurchase facility.

The Saudi Government is hoping to tap a large domestic pool of liquidity. According to the latest Sama statistics, total cash in circulation is SR38.81bn, demand deposits account for SR47.57bn, while time and savings deposits, plus quasi- monetary deposits amount to SR74.36bn. The money supply measure M1, which covers demand deposits plus currency in circulation, totals SR86.38bn, of which 45 per cent or SR38.87bn is privately held. M2, another measurement including M1 and time and savings deposits, totals SR127.35bn, of which 52.4 per cent, or SR66.73bn is privately held.

The Kingdom's 11 commercial banks are due approximately SR76.6bn from foreign banks and have lent only SR56bn in the Kingdom. Actual surplus liquidity is around SR60bn, according to some bankers.

The actual form the debt instruments will take is not yet clear. SAMA may offer them only to banks or may issue them in denominations small enough for private investors. "We think that would be best, because it would encourage a businessman to invest directly in his country," one banker said. The Government must also decide whether the bonds can be resold.

This will be a major step in developing the Kingdom's infant capital markets. The stock market's central trading hall remains closed.

Finn Barre

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	230.7	0.3	47.4	1,557.7
Prev	8.5	0.0	0.0	4,719.7
Other	379.3	0.0	32.4	164.9
Prev	1,639.9	254.9	174.7	183.6
Secondary Market				
US$	6,302.9	889.8	2,235.5	2,368.7
Prev	11,117.3	2,054.3	10,024.8	6,115.0
Other	7,418.5	512.1	882.1	6,496.1
Prev	17,746.0	1,032.4	2,536.9	13,611.5

	Cedel	Euroclear	Total
US$	6,178.7	7,454.3	13,633.0
Prev	10,517.9	23,521.7	34,039.6
Other	7,666.4	8,219.0	15,885.4
Prev	15,832.4	21,347.5	37,179.9

Week to December 31, 1987 Source: AIBD

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Institutional support under test this week

IF THERE was one thing which kept spirits in the gilt-edged market buoyant throughout most of December it was the belief that institutional support would return to the market in the New Year.

Surveys of institutional intentions and a mountain of anecdotal evidence suggested at year-end that institutional cash positions were being increased – partly for prudential reasons and partly for window-dressing purposes – and that a lot of this cash together with a higher percentage of normal cash flows would be dedicated to the gilt market this year.

The long period of waiting is now to be over. Market makers should receive an unambiguous answer to the question when, as it is believed, the Bank of England announces the terms of its third and last experimental gilt auction (of medium-term stock) on Wednesday or Thursday.

A factor supporting the auction is that January is a good month for dividend payments. About £1.75bn should be paid out which more than covers the second and final call on the December 16 £1bn convertible gilt tender and an auction of up to £1bn.

The Bank can issue a stock as short as seven years and as long as 15 years. According to Mr John Shepperd of Warburg Securities, if the Bank opts for the shorter end of the range it could be a very attractive stock to foreigners. If, like the convertible tender, it were free of tax, it would be even more so.

Foreign investors have been aggressive purchasers of gilts and have more than funded the PSBR so far this financial year. In this they have been supported by an unusually long period of a stable to appreciating pound. On the currency alone, an unhedged US investor made 24 per cent and a West German investor 6.7 per cent investing in the UK over the course of 1987.

How the stock trades in the week between the announcement and the auction should prove a useful guide to the institutional appetite for gilts.

Tomorrow's release of December figures for UK foreign currency reserves is one market sensitive economic statistic out this week but it ought not concern the gilt market unduly. This is so even though reserves, which stood at $41.3bn at the end of November, could have risen significantly last month.

Although the Bank did not participate aggressively in the co-ordinated foreign exchange market intervention last week, it is thought to have intervened heavily during the first two weeks of December when the pound threatened to rise above its DM3 cap.

Although some forecasters are predicting a very low rise in underlying reserves, others, such as Mr Stephen Lewis of Phillips and Drew, have upgraded their earlier predictions and now believe underlying reserves could have risen by as much as $2bn, or more, during December.

Given the healthy state of public finances, the issue of sterilisation of foreign currency reserves through the sale of gilts should be of less importance than it might otherwise have been in past years.

In the financial year to the end of November, the Bank was underfunded by only £1.2bn. A higher than expected growth in revenues together with a lower than forecast growth in outlays should continue in December and produce another healthy PSBR figure. Add to this the Bank's success in raising almost £950m in gilt issues during December and the funding picture looke very comfortable indeed.

But there are some concerns over the pound. Since the failure of Opec to reach a workable price/production fixing accord in mid-December, the pound has weakened slightly against the D-Mark. The test for the Government will come if sterling looks like weakening further against the D-Mark.

The rationale for DM3 is that by hitching Britain to the D-Mark inflation is kept under control – *de facto* membership of the exchange rate mechanism of the European Monetary System.

This has credibility, however, only if the policy is adhered to through time, or is symmetrical. Britain has already foregone a greater anti-inflationary benefit by not allowing the pound to rise above DM3, so the policy only has logical force if the pound is maintained at around that level when it would otherwise depreciate.

"Symmetrical" is a word often heard in official circles. And it is not always uttered with a great degree of confidence. Further weakness in sterling, to around the DM2.90 level, should presage intervention in exchange markets to defend the pound, a rise in base rates, or both.

Either way it could prove a useful test of the Government's anti-inflation credentials, over which a degree of doubt still persists.

Simon Holberton

US MONEY AND CREDIT

Tokyo sets the trends for 1988

BY THE TIME you read this, the two biggest financial questions of the New Year may already have been answered. This morning, while brokers in London are still jostling in their commuter trains and traders in New York are still sleeping off the excesses of their extended celebrations, the markets in Tokyo will already have set the trends that could dominete the financial world for much of 1988.

When the Tokyo stock and foreign exchange markets were last simultaneously functioning, immediately after Christmas, the dollar fell three yen and the Nikkei index responded by collapsing 600 points. In the three days after that – formally public holidays in Japan – the dollar dropped e further two yen, with no bottom in sight.

How many holidaying traders with long dollar positions will have to run for cover as foreign exchange dealings get back into full swing around the world? And what will be the impact of the collapsing dollar on the Japanese equity portfolios frozen by the five day hiatus on the Tokyo exchange?

By Monday morning we may have a good idea about the answers to these all-important questions. And after the events of October it is quite conceivable that they will be answered in a dramatic manner. But what does the Tokyo stock market have to do with US bonds?

It is a commonplace observation these days that no lasting stability is likely in the US credit markets as long as the dollar continues to fall without any apparent limit. Given that efforts to stabilise curencies through international agreements and jawboning are rapidly losing credibility, there is only one reason why the dollar might stop falling in the months ahead: that it has already fallen far enough. What "far enough" means is an exchange rate that is sufficiently low to bring into a long-run equilibirum the flows of trade and capital investment between the US and its economic competitors.

Of course, nobody can know what that exchange rate might be until well after the event. After the many false dawns of the last year, the markets are likely to be particularly sceptical of claims that the US trade deficit is finally turning downwards. Since the October crash, they will be downright cynical about projections that Japanese investment will come to the rescue, effortlessly financing trade deficits of $100bn-plus a year until the end of the century. This scepticism explains why freely-floating currencies have never stabilised without overshooting in both the upward and downward directions.

But, while it will never be possible to cry Eureka and declare that the right level for the dollar has now been reached, there are two fairly sure signs that they remain at the wrong level. This is where the Tokyo stock market comes in.

The first pointer to continuing currency instability is the difference in real interest rates between Japan and the US. Assuming prospective inflation rates of around 5 per cent in America and next to nothing in Japan, long-term real interest rates are actually higher in Japan than in the US. Given that the US authorities are obviously unwilling to raise their interest rates, the onus for currency stability is once again firmly on the Japanese.

However, the continuing speculative fever in the Tokyo equity and property markets has imposed a serious note on the Bank of Japan's willingness to loosen monetary policy further. Until a sharp reversal in asset values delivers a deflationary shock to the Japanese economy comparable to the one suffered in the US and Europe since October, policymakers on the two sides of the Pacific will be talking about two very different worlds when they discuss the virtues of international monetary co-ordination.

The second indicator that the dollar has not yet dropped far enough is the state of Japan's corporate sector. Before the currency realignment is completed, Japanese export industries must be hurt, and hurt pretty badly. Until this can be clearly demonstrated, the minimum necessary conditions for dollar stability will not have been attained.

The US trade deficit is never going to be narrowed rapidly enough by export growth alone. There can be no question of currency stability until the US also dramatically cuts its imports; and these import reductions will have to occur largely at the expense of the Japanese.

It would be absurd for American companies to focus on regaining world market share from Korean, Brazilian or Taiwanese competitors since no amount of currency devaluation could possibly offset these countries' labour cost advantages. Nor should the US seek to do this, since it would then lose out on all the benefits of comparative advantage and international division of labour.

Japan and Europe, on the other hand, are America's natural rivals. Whatever gains are made in the US current account will be at their expense. Europe, regarded as a unit, is much larger and less export-dependent than Japan.

Thus it is on Japanese exporting companies that the biggest burden of adjustment will inevitably have to fall. Every time Toyota persuades its workers to accept a lower annual bonus or manages to pass on the costs of the risign yen to its small parts suppliers, it simply guarantees that the yen will continue to rise further.

As long as the Tokyo stock market continues to defy gravity, supported by the belief that Japanese exporters "will learn to live with" a dollar at Y130 or Y120 or Y100, the US currency should logically continue falling.

Of course, logic does not always rule in the financial markets. The Tokyo stockmarket may be antirely wrong about the export companies' prospects. Perhaps they have already been crippled by the dollar at Y121. But if there is one lesson which can be drawn from the financial upheavals of the last few months it is that, in an interconnected world, different markets cannot continue operating forever on diametrically divergent expectations.

As long as the Tokyo stockmarket manages to evade the adjustment which has occurred around the world to a new, more straightened, economic reality, every financial market around the world will be haunted by the imaginary sound of a heavy second shoe waiting to drop.

The positive side of this argument is that the long-dreaded correction in Japanese equity prices could be an unexpectedly bullish development for all other financial markets – particularly credit markets – throughout the world.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.81	6.79	7.01	7.78	5.98
Three-month Treasury bills	5.71	5.76	5.41	7.27	5.03
Six-month Treasury bills	6.18	6.40	6.15	7.65	5.30
Three-month prime CDs	7.28	7.78	7.60	8.28	5.88
30-day Commercial Paper	7.38	7.98	7.50	7.78	5.75
90-day Commercial Paper	7.20	7.45	7.40	8.85	5.65

US BOND PRICES AND YIELDS (%)

	Last	Change	Yield	1 week ago	4 wk. ago
Seven-year Treasury	[illegible]	[illegible]	8.57	[illegible]	[illegible]
20-year Treasury	[illegible]	[illegible]	8.97	[illegible]	[illegible]
30-year Treasury	[illegible]	[illegible]	8.90	[illegible]	[illegible]
New 10-year A Financial	n/a	n/a	[illegible]	[illegible]	[illegible]
New AA Long utility	n/a	n/a	[illegible]	[illegible]	[illegible]
New AA Long industrial	n/a	n/a	[illegible]	[illegible]	[illegible]

Source: Salomon Brothers (estimates).

FINANCIAL FUTURES

Chicago exchanges hit back at NYSE

LAST WEEK'S report by a New York Stock Exchange commission that called for sweeping changes in the way financial futures are traded has been greeted sceptically as "self-serving" by Chicago's futures exchanges.

Weary of being blamed by New York for October's stock market crash, the exchanges pointed to a lack of data backing up assertions made by the report.

New York's suggestion about trading a stock index futures contract on its own floor was seen as a cynical attempt to win back competition from Chicago's highly successful derivative products market.

"I don't know why they bothered with a report," commented Mr Merton Miller, who heads an independent panel set up by the Chicago Mercantile Exchange to look into the role of futures. "They could have taken all that out of their press releases."

Chicago's exchanges have been gathering their own evidence on what happened during the crash. They maintain that stock selling pressure would have been much worse in New York if the Windy City's stock index futures had not provided a safety valve.

"Any loss of public confidence in the capital markets was as a result of the failure of the New York Stock Exchange Specialist System," stressed Mr Thomas Donovan, president of the Chicago Board of Trade – the world's biggest futures exchange.

The CBOT has long been critical of what it calls New York's "antiquated and monopolistic" specialist system.

While the CME, which trades the busiest stock index futures contract – the Standard & Poor's 500 – was making little initial comment on the report, in a statement, it pointed to Mr Katzenbach's lack of evidence that futures caused or exacerbated the October 19 collapse.

"There aren't many facts in there," contends Mr Miller. "I don't know why it took so long to complete." Mr Miller, whose panel warned before Christmas of pushing out retail stock index buyers by raising futures margins, said he could not understand why Mr Katzenbach made such a "big deal" of this sort of speculation. "We found that retail demand didn't have much to do with anything," he noted.

Denying the need for stocks and stock index futures to be regulated by one agency, Mr Donovan said: "There is no reason to believe the NYSE would have performed any better if financial futures had been regulated by the Securities and Exchange Commission." The SEC currently regulates stocks and stock options, while financial futures come under the auspices of the Commodity Futures Trading Commission.

Deborah Hargreaves

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. on day	Chg. on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS

[illegible]

FLOATING RATE NOTES

[illegible]

CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. [illegible]
FLOATING RATE NOTES: US dollars unless indicated. [illegible]
CONVERTIBLE BONDS: US Dollars unless indicated. [illegible]
WARRANTS: [illegible] Closing prices on DECEMBER 31

David Dodwell on the arrest of the HKSE's former chairman

The fall from grace of Ronald Li

WHEN Mr Ronald Li, the quixotic former chairman of Hong Kong's stock exchange, gave his not-inconsiderable backing four months ago to plans for a share offering by Club Volvo, a local girlie bar, a director of the club, Mrs Loretta Fung, said funds could have been raised "by phoning a few people up," then added: "But Mr Li said it would be much more fun to do it through a public flotation."

For the fun-loving Mr Li, much of the enjoyment of running the stock exchange must have evaporated over the past weekend. His arrest by staff of Hong Kong's Independent Commission Against Corruption (Icac) marks an astonishing three-month fall from grace that even his fiercest critics would have thought barely possible.

No charges were immediately laid against Mr Li. He was released yesterday on bail of HK$10m (US$1.28m) and has had travel documents taken away. But for a man who has often been quoted as saying that for a Chinese businessman his honour is more important than his life, the ignominy of being escorted to Icac headquarters for a day of interrogation "in connection with the operations of the stock exchange" will be hard to bear, whatever the eventual outcome.

Only three months ago, in the first week of October, Mr Li was riding the crest of a wave. He was in New York, being feted by the barons of the US securities industry, on a roadshow aimed at wooing investment in Hong Kong companies by US institutions.

"We are now a stock exchange of international standing, and therefore we are trying to make our stocks international," he said at the time.

In the 18-month period since he won acclaim for forging Hong Kong's four bickering stock exchanges into a unified market, he had seen capitalisation almost double from HK$260bn to HK$450bn. Daily turnover had roared from HK$250m to more than HK$4bn, and more than 30 companies were seeking public listings. Hong Kong's futures market, of which he was deputy chairman, had become one of the most active in the world.

This period will no doubt in future be seen as the zenith of his career. Now approaching his 59th birthday, he was born the youngest of four brothers and eight sisters in the family of a rich Hong Kong merchant. With a barbed tongue and impregnable self assurance, he outmanoeuvered rivals and government officials on his way to becoming head of the Far East Exchange, the most dynamic of the four exchanges before unification in 1986. Along the way, he is thought to have amassed a fortune not far short of HK$20bn.

Since the New York visit, it has been down all the way. Controversy erupted in the wake of Black Monday when Mr Li and his exchange committee decided to close the local market for four days, rather than face the typhoon that was buffeting exchanges elsewhere in the world.

A number of excuses were provided for the decision, including the argument that share settlements had become hopelessly backlogged. But international opinion was all but unanimous in its condemnation – and doubly so since Hong Kong so often trumpets itself as the very essence of a free market.

The government's apparent inability to intervene highlighted the fact that the exchange was being run as the private monopoly of a small group of local stockbrokers, with Mr Li holding powerful sway over his committee.

When the market reopened, share prices slid more steeply than anywhere else in the world. Many blamed the closure for the extremity of the crash.

At the heart of the crisis was the bankruptcy of the futures exchange where Mr Li also held considerable sway. International institutions and major futures market players who were pressured to contribute to a HK$2bn lifeboat fund for the futures exchange were also fierce in their criticism of Mr Li – for a number of controversial proposals aimed at rescuing speculators on the futures exchange and for his committee's failure to ensure adequate regulation of the market.

Unrepentant, Mr Li retaliated by blaming the collapse on the international institutions and sought to add a racial dimension to controversy by claiming that "white faces" were trying to bully local brokers in their efforts to win greater influence over stock exchange decisions.

Even now, no foreign broker sits on the stock exchange committee, although they account for almost 70 per cent of stock market turnover.

In the wake of the securities industry crisis, the government has set in train a number of changes that have steadily eroded Mr Li's once unchallengeable control over the stock exchange and futures market.

A new executive has been appointed to the futures exchange, while on the stock market Mr Robert Fell, who recently retired as the territory's Banking Commissioner, has been hauled back from the UK to act as senior chief executive of the exchange.

Mr Ian Hay Davison, the former chief executive of Lloyd's of London, has been appointed to head an inquiry into the securities industry, and wide-ranging reforms are promised when he reports in the middle of the year.

The appointment at the weekend of a management committee to usurp the powers of the stock exchange general committee effectively eliminates Mr Li as a decision-making force on the exchange: Mr Jeffrey Sun has resigned as chief executive, and Ms Sue Selwyn, at present on the council of London's stock exchange, has arrived to begin a one-year secondment as deputy chief executive. Headhunters have drawn up a shortlist of prospective Cantonese-speaking candidates as a future chief executive, and Ms Selwyn's main task will be to train the successor into the job.

Other changes are under way. Surveillance of member brokers has been tightened, with accountants Coopers and Lybrand monitoring their financial worth and examining the issue of capital and liquidity requirements. The stock exchange's lawyers, who in the past were linked with one of Mr Li's sons, have been replaced by the international law firm Linklaters.

The problem of share settlement has been all but solved, not simply by an improvement in procedures, but because the trading volumes that were putting the paper-based settlement system under strain before October 19 have dwindled to a trickle.

Long-overdue proposals for computerised central clearing, and for a share depository, are also being examined.

International institutions and major local stockbrokers have insisted for more than a year that these reforms should have been introduced by Mr Li and have blamed slipshod management practice and his idiosyncratic (and autocratic) control of the exchange as major contributory factors to the loss of international confidence in the local stock market in the wake of the October collapse.

His arrest has nothing directly to do with the stock market crash, or the international controversy that surrounded it. The inquiry is understood to have begun in September and is thought to focus on demands made of companies seeking stock exchange listings.

It may be some time before any specific charges are laid, but it is certain that Mr Li continues to see himself as a man unjustly accused and, as a Cantonese fiercely sensitive about matters of honour, the only thing that is clear is that he will not take accusations lying down.

Da Shing officials held

BY BOB KING IN TAIPEI

TAIWANESE investigators have detained several officials of Da Shing Stock Brokers, a leading local securities firm, in connection with a probe into possible illegal stock trading after a client defaulted on loans of US$26.8m late last month.

Taiwan's Investigation Bureau had by yesterday not filed any charges against officials of Da Shing but said at least four people including Mr Yeh Hui, Da Shing's president, and Mr Huang Yi-ming, vice-president, were being detained pending investigation of illegal trading.

Da Shing nearly collapsed just before Christmas with the default of Mr Lei Po-lung, a key client known colloquially as Big Boss Lei. The government, fearing a possible collapse of the market should Da Shing be forced into insolvency, persuaded a local bank to extend credit to the brokerage in exchange for $38.5m worth of shares owned by Mr Lei.

According to Taiwan securities and exchange rules, brokers such as Da Shing are not allowed to provide margin lendings to clients. Exchange operators say, however, that such lendings are common.

Grand Met clear for Martell

BY PAUL BETTS IN PARIS

THE FRENCH authorities are expected to approve a FFr3.68bn bid by Grand Metropolitan, the UK drinks group, for Martell, the 272-year-old French cognac house, according to Mr Georges Chavanes, the French minister for commerce, services and craft industries.

Mr Chavanes also indicated at the weekend that the government was likely to block a rival takeover deal for Martell by Seagram, the Canadian drinks group. However, he emphasised that the final decision on the private deal negotiated between Seagram and the Martell family rested with the French finance and economy ministry.

Mr Chavanes added that the Grand Met bid for Martell was expected to be approved between January 11 and 15. He said he would be meeting Martell, Seagram and Grand Met officials this week to discuss the social implications of the bids.

The minister's statements represent a boost for Grand Met in its efforts to gain the initiative over Seagram in the Martell takeover battle.

Seagram last month agreed in a private transaction to buy a 41 per cent stake in the cognac house owned by the Martell family for about FFr1.4bn. The deal would have given the Canadian group control of the cognac house since Seagram had already accumulated a 12 per cent stake in Martell in the stock market.

However, the Paris stock exchange ruled last week that the unusual notarised agreement between Seagram and the Martell family breached French stock market regulations.

Japanese claim 48% of semiconductors market

BY ALAN CANE IN LONDON

JAPANESE companies claimed 48 per cent of the world market for semiconductors in 1987 with Toshiba Corporation growing substantially faster than the market to take second place to Nippon Electric in the world rankings.

NEC's revenues were $3.19bn, an increase of 21 per cent over 1986. Toshiba turned over $2.94bn (up 29.1 per cent) while Hitachi ($2.78bn, up 20.5 per cent) slipped from second place to third, according to the latest survey by Dataquest, the US market analysis company.

The US companies Motorola and Texas Instruments, with revenues of $2.45bn and $2.12bn respectively, were fourth and fifth in the league.

Semiconductor companies fared better in 1987 than they have since the beginning of the slump in the market in 1984, Dataquest says. It estimates that overall semiconductor sales grew 24.3 per cent in 1987 to reach $36.6bn, up from $29.4bn in 1986.

South-east Asian companies outside Japan, it says, performed best, growing by 64 per cent though they took only 2 per cent of the market against Japan's 48 per cent, North America's 39 per cent and Europe's 11 per cent.

The Dataquest rankings are in terms of the US dollar which has declined sharply against the Japanese yen and European currencies in 1987.

"The continued decline of the US dollar has a significant first-order impact on the valuation of revenue," it warns. "The second and third order effects of the devaluation of the dollar should cause changes in cost structure, prices and competitive dynamics in the worldwide market."

In the market for Application Specific Integrated Circuits (ASICs) semi-custom devices, which many believe will take an increasingly important role in world electronics, NEC again led the table with Toshiba in second place, Matsushita third and the US ASIC pioneer LSI Logic in fourth place.

TOP TEN SEMICONDUCTOR SUPPLIERS

Company	Rank 1987 (1986)	Revenues ($bn) 1987 (1986)	% change
NEC	1 (1)	3.193 (2.638)	21.0
Toshiba	2 (3)	2.939 (2.276)	29.1
Hitachi	3 (2)	2.781 (2.307)	20.5
Motorola	4 (4)	2.450 (2.025)	21.0
Texas Instruments	5 (5)	2.125 (1.781)	19.3
Fujitsu	6 (6)	1.899 (1.365)	39.1
Philips-Signetics	7 (8)	1.597 (1.258)	26.9
Intel	8 (11)	1.500 (991)	51.4
Mitsubishi	9 (10)	1.481 (1.136)	30.4
Matsushita	10 (9)	1.479 (1.206)	22.6

All revenues rounded.

Source: Dataquest

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Barclays N.Amer.Cap.(c)‡	400	2017	30	10½	99.358	Shearson Lehman	10.571
AUSTRALIAN DOLLARS							
Wings IV Ltd.(a)†‡	195.4	1997	9¼	7	102	Mitsui Finance Int.	6.697
NEW ZEALAND DOLLARS							
DFC Overseas Inv.**(b)‡	120	1992	5	-60bp	100.20	IBJ Int.	-
SWISS FRANCS							
Bayerische Vereinsbk‡	100	1998	-	4¾	100½	Wirtschafts-und P'bk	4.702
EMEL‡	100	1993	-	4¼	100	Warburg Soditic	4.250
ENEL‡	100	1995	-	4½	100⅛	Warburg Soditic	4.437
YEN							
Union Bank of Finland‡	5bn	1993	5	5¼	101.65	IBJ Int.	4.870

*Not yet priced. **Private placement. ‡Final terms. †Currency-linked. ‡Floating rate note. (a) Coupon payable in A$, redeemed in US $. (b) 60bp under 3-month bank bill rate. (c) Launched on US domestic market. Note: Yields are calculated on AIBD basis.

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %

£ WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on Monday, December 31, 1987. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on US dollar parities and going sterling-dollar rates; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers rate; (cm) commercial rate; (cn) convertible rate; (fn) financial rate; (exC) exchange certificate rate; (nc) non commercial rate; (nom) nominal; (o) official rate; (sg) selling rate; (c) controlled rate.

COUNTRY	CURRENCY	VALUE OF £ STERLING
Afghanistan	Afghani	99.25
Albania	Lek	10.3473
Algeria	Dinar	8.73
Andorra	French Franc / Spanish Peseta	10.0350 / 201.95
Angola	Kwanza	55.231
Antigua	E. Carribean$	5.05
Argentina	Austral	9.5875
Aruba	Florin	3.3660
Australia	Australian$	2.600
Austria	Schilling	20.90
Azores	Portuguese Escudo	246.00
Bahamas	Bahama $	1.8785
Bahrain	Dinar	0.7045
Balearic Islands	Spanish Peseta	201.95
Bangladesh	Taka	58.20
Barbados	Barbados $	3.7611
Belgium	Belgian Franc	(cm)62.00 / (fn)62.35
Belize	B $	3.7400
Benin	C.F.A. Franc	501.75
Bermuda	Bermudian $	1.8785
Bhutan	Ngultrum	23.80
Bolivia	Boliviano	(o)4.0579
Botswana	Pula	2.92
Brazil	Cruzado	134.61
British Virgin Islands	U.S.$	1.8790
Brunei	Brunei$	3.7455
Bulgaria	Lev	1.5134
Burkino Faso	C.F.A Franc	501.75
Burma	Kyat	10.8865
Burundi	Burundi Franc	272.50
Cameroon	C.F.A Franc	501.75
Canada	Canadian $	2.4445
Canary Islands	Spanish Peseta	201.95
Cape Verde Islands	Cape V Escudo	166.935
Cayman Islands	Cayman Isles $	1.5615
Cent.Afr. Republic	C.F.A. Franc	501.75
Chad	C.F.A. Franc	501.75
Chile	Chilean Peso	450.22
China	Renminbi Yuan	6.9211
Colombia	Col.Peso	498.43
Comoro Islands	C.F.A. Franc	501.75
Congo (Brazzaville)	C.F.A. Franc	501.73
Costa Rica	Colon	128.563
Cuba	Cuban Peso	1.3713
Cyprus	Cyprus £	0.8160
Czechoslovakia	Koruna	(com) 9.20 / (nc)16.01 / (T)15.58
Denmark	Danish Kroner	11.4225
Djibouti Republic of	Djibouti Franc	300.00
Dominica	E. Carribean$	5.05
Dominican Republic	Dominican Peso	8.6985
Ecuador	Sucre	416.14 / 464.98
Egypt	Egyptian £	4.0840
El Salvador	Colon	9.4150
Equatorial Guinea	C.F.A. Franc	501.75
Ethiopia	Ethiopian Birr	3.8451
Falkland Islands	Falklands £	1.00
Faroe Islands	Danish Kroner	11.4225
Fiji Islands	Fiji $	2.6897
Finland	Markka	7.3938
France	Franc	10.0350
French C'ty in Africa	C.F.A. Franc	501.75
French Guiana	Local Franc	10.0350
French Pacific Islands	C.F.P. Franc	178.00
Gabon	C.F.A. Franc	501.75
Gambia	Dalasi	13.9973
Germany (East)	Ostmark	2.9600
Germany (West)	Deutsche Mark	2.9600
Ghana	Cedi	329.21
Gibraltar	Gibraltar £	1.00
Greece	Drachma	236.97
Greenland	Danish Krone	11.4225
Grenada	E. Caribbean $	5.05
Guadaloupe	Local Franc	10.0350
Guam	U.S. $	1.8785
Guatemala	Quetzal	1.8785 / (O)4.8390
Guinea	Franc	635.80
Guinea-Bissau	Peso	1215.50
Guyana	Guyanese $	16.82
Haiti	Gourde	9.3500
Honduras	Lempira	3.7660
Hong Kong	H.K. $	14.5975
Hungary	Forint	86.2934
Iceland	Icelandic Krona	66.75
India	Indian Rupee	23.80
Indonesia	Rupiah	3075.30
Iran	Rial	120.75
Iraq	Iraqi Dinar	0.5783
Irish Republic	Punt	1.1200
Israel	Shekel	2.845
Italy	Lira	2188.00
Ivory Coast	C.F.A. Franc	501.75
Jamaica	Jamaican Dollar	9.87
Japan	Yen	228.00
Jordan	Jordanian Dinar	0.6150
Kampuchea	Riel	N/A
Kenya	Kenya Shilling	30.40
Kiribati	Australian $	2.600
Korea (north)	Won	1.7578
Korea (south)	Won	1473.29
Kuwait	Kuwaiti Dinar	0.51250
Laos	New Kip	65.4500
Lebanon	Lebanese £	843.57
Lesotho	Maloti	3.6280
Liberia	Liberian $	1.8785
Libya	Libyan Dinar	0.5182
Liechenstein	Swiss Franc	2.3950
Luxembourg	Luxembourg Franc	62.00
Macao	Pataca	14.9002
Madeira	Portuguese Escudo	246.00
Malagasy Republic	M.G. Franc	1.9020
Malawi	Kwacha	3.7800
Malaysia	Ringgit	4.6808
Maldive Islands	Rufiya	13.0900
Mali Republic	C.F.A. Franc	501.75
Malta	Maltese £	0.5805
Martinique	Local Franc	10.0350
Mauritania	Ouguiya	140.83
Mauritius	Mauritian Rupee	24.05
Mexico	Mexican Peso	(o)4224.55 / (c)4111.20
Miquelon	Local Franc	10.0350
Monaco	French Franc	10.0350
Mongolia	Tugrik	6.2749
Montserrat	E. Caribbean $	5.05
Morocco	Dirham	14.00
Mozambique	Metical	735.48
Namibia	S.A. Rand	3.6280
Nauru Islands	Australian $	2.600
Nepal	Nepalese Rupee	39.2700
Netherlands	Guilder	3.3300
Netherland Antilles	Antillian Guilder	3.3600
New Zealand	N.Z. $	2.8460
Nicaragua	Cordoba	3764.00
Niger Republic	C.F.A. Franc	501.75
Nigeria	Naira	(o)8.00
Norway	Norwegian Krone	11.6975
Oman Sultanate of	Rial Omani	0.7195
Pakistan	Pakistan Rupee	32.50
Panama	Balboa	1.8785
Papua New Guinea	Kina	1.6414
Paraguay	Guarani	602.56 / 1638.21
Peru	Inti	62.13 / 79.08 / 84.73 / 118.29
Philippines	Peso	38.50
Pitcairn Islands	£ Sterling / N.Z. Dollar	1.00 / 2.8460
Poland	Zloty(o)	578.44
Portugal	Escudo	246.00
Puerto Rico	U.S. $	1.8785
Qatar	Riyal	6.0680
Reunion Isle de la	French Franc	10.0350
Romania	Leu (c)	15.26
Rwanda	Franc	135.83
St Christopher	E. Caribbean $	5.05
St Helena	Pound	1.00
St Lucia	E. Caribbean $	5.05
St Pierre	French Franc	10.0350
St Vincent	E. Caribbean $	5.05
San Marino	Italian Lira	2188.00
Sao Tome & Princip DR.	Dobra	61.0794
Saudi Arabia	Riyal	7.0630
Senegal	C.F.A. Franc	501.75
Seychelles	Rupee	9.60
Sierra Leone	Leone	40.20
Singapore	Dollar	3.7455
Solomon Islands	Dollar	3.6804
Somali Republic	Shilling (d)	224.774
South Africa	Rand	(cm)3.6280 / (fn)5.6798
Spain	Peseta	201.95
Spanish Ports in N Africa	Spanish Peseta	201.95
Sri Lanka	Rupee	58.00
Sudan Republic	Pound (o)(1)	8.4150
Surinam	Guilder	3.3380
Swaziland	Lilangeni	3.6280
Sweden	Krona	10.87
Switzerland	Franc	2.3950
Syria	Pound (o)	7.3398
Taiwan	Dollar (o)	53.29
Tanzania	Shilling	153.25
Thailand	Baht	46.50
Togo Republic	C.F.A. Franc	501.75
Tonga Islands	Pa'anga	2.600
Trinidad & Tobago	Dollar	6.7320
Tunisia	Dinar	1.4547
Turkey	Lira	1820.34
Turks & Caicos Islands	US $	1.8785
Tuvalu	Australian Dollar	2.600
Uganda	New Shilling (1)	112.25
United Arab Emirates	Dirham	6.9180
United States	US Dollar	1.8785
Uruguay	Peso (m)	527.71
USSR	Rouble	1.0853
Vanuatu	Vatu	187.50
Vatican	Lira	2188.00
Venezuela	Bolivar (n)	(4)14.05 / (6)56.96
Vietnam	Dong (o)	149.50
Virgin Islands (British)	BS $	1.8785
Virgin Islands (US)	US $	1.8785
Western Samoa	Tala	3.7000
Yemen	Rial	18.10
Yemen PDR	Dinar	0.6414
Yugoslavia	Dinar	2313.27
Zaire Republic	Zaire	230.29
Zambia	Kwacha	14.30
Zimbabwe	Dollar	3.1000

‡Rate is the transfer market (controlled). ††Now one official rate. (1)Essential Goods (2) Preferential rate for priority imports such as foodstuffs. (4) Preferential rate for Public Sector Debt and Essential Imports. (5) Preferential rate. (6) Free rate for luxury imports, remittances of money abroad and foreign travel. (7)Parallel rate. (8) Banknote rate. (9) Rate for exports. (10) Nearly all Business transactions. Corrections December 7 1987, Argentina 7.7455. Egypt 4.02. Thailand 44.90. Corrections December 14 1987, Guinea Bissau 1195.73. Kuwait 0.5090. Corrections December 21 1987, Malawi 3.7850. Zaire 228.06.

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§55	F.P.	6/1	61	55	‡Allied Restaurants 5p	61	+1	L1.1	4.6	2.5	11.8
330	120	-	92	70½	British Petroleum	70½		N12.5	1.5	6.1	14.0
-	F.P.	-	4½	2	EFM Dragon Tst. Wrrnts.	4½		-	-	-	-
†	F.P.	-	268	231	English & Caledonian Inv.	231		-	-	-	-
350	F.P.	22/1	284	234	Eurotunnel Units	235	+1	-	-	-	-
-	F.P.	-	13	10	Do Warrants	14		-	-	-	-
†	F.P.	-	125	78	Hard Rock A (R-Vtg) 2p	80		L1.53	3.3	2.6	14.2
§100	F.P.	-	111	100	‡Hatfield Estates 10p	110	-1	R1.5	10.2	1.9	7.3
60	F.P.	-	82	66	How Group 10p	71		R2.2	3.1	4.2	10.4
85	F.P.	15/1	100	93	Intl. Colour	98		L1.0	7.4	1.4	13.2
-	F.P.	-	362	262	Lefkochrysos NPV	362		-	-	-	-
†	F.P.	-	36	23	‡Mowat Group 10p	33	-3	-	-	-	-
§75	F.P.	15/1	80	75	Nestor-BNA 10p	76	-2	R1.85	2.5	3.2	17.3
§80	F.P.	-	101	88	Paragon Comms. 5p	88		R2.5	3.4	3.9	10.3
§18	F.P.	23/12	21	19	‡Pathfinders Grp. 5p	20		b0.29	3.9	2.0	17.3
§100	F.P.	-	107	103	‡Shorco Grp.	107	+1	R3.65	2.7	4.7	10.7
17	F.P.	-	25	18	*Stalis Hldgs.	24	+1	-	-	-	58.8
§114	F.P.	-	121	115	‡Sykes-Pickavant 10p	118		R5.25	2.0	6.1	11.1
§70	F.P.	-	73	66	‡Trevian Hldgs. 10p	66		R2.0	4.6	4.1	7.1

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price £	+ or -
-	-	-	110	90½	Ausbacher(H.)9pc.Cnv.Sub.Ln.1998	102½	-7½
§91.54	£50	11/2	50	49¼	Brit.&Comm.10½pc.Un.Ln.2012	49¼	-⅛
♦	F.P.	-	115	113	Granada 7½pc.Cv.Pf	113	
100	F.P.	21/1	48	43	Housing Fin.5pc.Deb.2027	46¼	-¼
100	F.P.	21/1	757	700	Do. Zero Deb.2012	738	
-	F.P.	-	101½	99⅞	N'wide Anglia 10⅛pc 12.9.88	100⅞	+⅛
-	F.P.	-	101⅞	99¼	Do. 10⅝pc 26.9.88	100⅞	+⅛
-	F.P.	-	101⅞	100¼	Do. 10⅛pc 31.10.88	100⅞	+⅛
-	F.P.	-	100⅛	99½	Do. 9¼pc 28.11.88	99⅞	+⅛
-	F.P.	-	100⅛	100	Do. 9⅞pc 28.12.88	100⅛	+⅛
100p	F.P.	-	115p	100p	‡Willaire Fixed Rate Cnv.Cum.Red.Pfr.	113p	

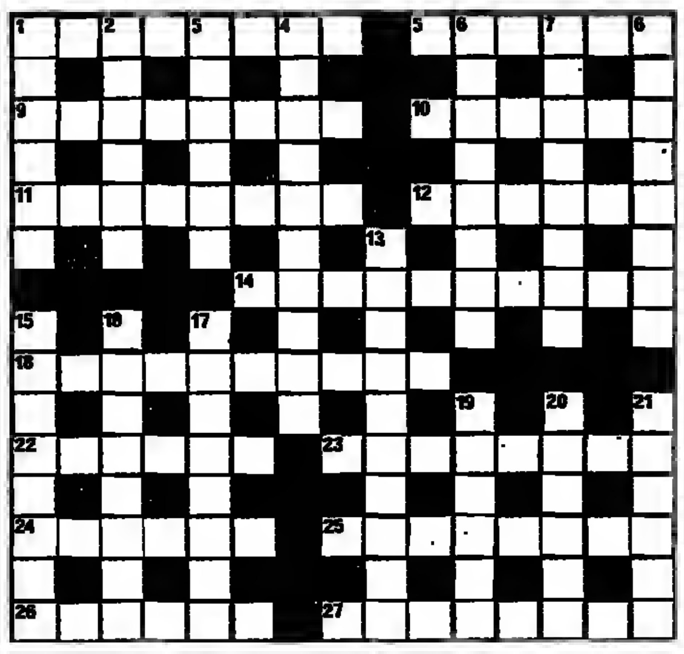
RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
27.5	Nil	15/2	3½pm	2pm	‡Bio-Isolates (Hldgs.)	2pm	
5	Nil	3/2	13pm	11pm	‡Biomechanics Int.	11pm	-1
25	Nil	-	48pm	26pm	ERA Grp. 5p	37pm	-1
28	Nil	-	10pm	7pm	Maxiprint	7pm	
140	Nil	-	49pm	30pm	Mecca Leisure 10p	49pm	+7
20	Nil	29/1	1¼pm	1¼pm	North Sea Assets B 5p	1¼pm	

Renunciation date usually last day for dealing free of stamp duty.a Annualised dividend.b Figures based on prospectus estimates.d Dividend rate paid or payable on part of capital, cover based on dividend on full capital.g Assumed dividend and yield .L Estimated annualised dividend,cover and p/e based on latest annual earnings.N Dividend and yield based on prospectus or other official estimates for 1987. Q Gross.R Forecast annualised dividend,cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures.Z Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided. ¶ Issued by tender.♦ Offered to holders of ordinary shares as a rights.† Introduction.§Placing price.†† Reintroduction.♦ Issued in connection with reorganisation merger or takeover. ‖ Allotment price.‡ Unlisted securities market.♦ Offical London listing.□ Including warrants entitlement.* Third Market.

FT CROSSWORD No.6,520

SET BY TANTALUS



ACROSS

1 Relevant facts (8)
5 Water in Germany changed for fish (6)
9 Check mother thanks to family trees (8)
10 Like monarch making o request (6)
11 Way in for transport (8)
12 Aircraft has time to make Earth, say (6)
14 Merino sent out when soup is served (10)
18 Ordered to pay those for medical treatment (10)
22 These days, neat arrangement attached to another organ (6)
23 Guess value (6)
24 Cultivated orange for wild ass (6)
25 A pupil posed with Scotsman and dog (8)
26 Home counties appointment is calm (6)
27 Not this, the other dear French worker (6)

DOWN

1, 15 Worked with spades at home to provide food (6,8)
2 Agreement to buy drinks at journey's end (6)
3 Scottish poet is Aries for example (6)
4 Busybody gets one high point - that's a letdown (10)
6 Determined Eros repaired old instrument (8)
7 Old Etonian rising awkwardly to meet feudal lord (8)
8 ....I knew almost as much at — as I do now (Johnson) (8)
13 Very old person produces a large bottle (10)
15 See 1 down
16 Typical flag (8)
17 Support for toes perhaps going to West End (4-4)
19 I'd turn up to give vote for Athenian judge (6)
20 Has rig been made to look showy (6)
21 We hear singer has a few pounds (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday January 16

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Schlesinger Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6995/4/5

Schlesinger Global Gth Ac.	26.2	27.9	+0.2	–
Do. Income	26.1	27.8	+0.2	0.19
Schlesinger European Acc.	20.9	22.3	-0.1	–
Do. Income	20.9	22.3	–	0.12
Schlesinger UK Eq Inc Acc.	35.7	37.6	+0.7	–
Do. Income	34.2	36.0	+0.7	5.49
UK Cap Gth Acc.	22.3	23.5	+0.3	0.75
Schlesinger Pac Basin Acc	24.9	26.5	–	–
Schlesinger Mangd Exempt*	139.9	145.8	+3.4	–

*Unauthorised

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1051

Inst Income Units	125.0	133.0	–	3.70
Inst Accum Units	191.2	203.4	–	3.70
UK General Acc.	36.4	38.9	–	3.11
UK General Inc.	35.0	37.4	–	3.11
American	25.6	27.4	–	0.64
European	33.5	35.8xd	–	0.96
Japan	48.5	51.9xd	–	–
Technology	32.7	35.0	–	1.42
Performance Trusts				
Far East Perf 1st	15.3	16.4	–	0.64
High Inc Perf Tst Inc	23.0	24.1xd	–	5.37
High Inc Perf Tst Acc.	23.5	25.1xd	–	5.37
Worldwide Tech Perf Tst	25.7	27.5	–	–

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Jackson (UK Equity)	209.3	224.3	–	2.86
Columbus (America)	114.8	122.8	–	1.45
Marco Polo (Pacific)	184.5	197.4	–	0.43
Da Vinci (European)	204.2	218.4	–	1.95
Drake	48.3	51.25	–	3.01

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	360.7	379.8	—	–
Eb'r Ph. Eq.	314.7	334.4	—	–
Pension Plan Funds				
Phoenix				
UK Equity Acc.	156.2	164.4	-1.4	–
International Acc.	118.2	124.4	+0.2	–
Property Acc.	121.8	128.2	-0.1	–
Fixed Interest Acc.	148.4	156.2	-0.6	–
Money Acc.	134.7	141.7	+0.2	–
Bldg. Soc. Link Acc.	131.7	138.6	+0.2	–
Special Mngd. Acc.Q	138.8	146.1	-0.1	–
Phoenix/Framlington				
Intnl. Growth Acc.	77.8	85.8	-0.8	–
Amer. & Gen. Acc.	69.8	73.4	-1.2	–
Capital Tst. Acc.	163.6	172.2	+2.0	–
Japan & Gen Acc.	155.5	163.6	-1.0	–
American Turn. Acc.	68.8	72.4	-0.7	–
Recovery Tst. Acc.	152.1	160.1	-1.1	–
Special Mngd Acc.	130.0	136.8	+0.4	–
Phoenix/GT				
International Acc.	117.8	119.7	+0.6	–
US & General Acc.	83.5	87.8	-0.1	–
Amer Spec Sits Acc.	58.8	61.8	+0.1	–
Japan & General Acc.	149.1	156.9		–
Far East & Gen. Acc.	120.9	127.2	-1.0	–
UK Capital Acc.	163.2	171.7	+4.5	–
European Acc.	123.3	129.7	+0.1	–
Special Mngd. Acc.	117.8	124.0	+1.6	–

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	260.4	274.2	—	–
Max Pens Inc & Cap Fdt.	332.4	349.9	—	–
Money Fund	110.6	116.3	—	–
Pens. Mngd Fd (Init)	83.0	87.4	—	–
Pens Mngd Fd (Acc)	92.2	97.1	—	–
Pens FT30 Fd (Init)	124.3	130.9	—	–
Pens FT30 Fd (Acc)	138.3	145.6	—	–
Pens O'seas MgFd(Init)	49.9	52.6	—	–
Pens O'seas MgFd(Acc)	55.5	58.5	—	–
Pens Fxd Int Fd (Init)	104.9	110.3	—	–
Pens Fxd Int Fd (Acc)	116.6	122.8	—	–
Pens Deposit Fd (Init)	100.5	105.8	—	–
Pens Deposit Fd (Acc)	111.8	117.7	—	–

Providence Life Assurance Co Ltd
Eastchester House, Haywards Heath 0444 458721

American	80.0	85.0	—	–
Building Soc. Fd.	157.0	166.0	—	–
Balanced	219.0	231.0	—	–
Deposit	157.0	166.0	—	–
European	113.0	119.8	-4.0	–

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prudent				
Managed Dec 23	190.4	198.4	—	–

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd	421.0	443.2	—	–
Equity Fd	858.9	904.2	—	–
Intnl. Fd.	290.8	306.2	—	–
Fixed Int. Fd	350.7	369.2	—	–
Prop. Fd.	299.8	315.6	—	–
Cash Fd.	232.1	244.4	—	–
Pacific Basin Fd.	154.6	162.8	—	–
North American Fd.	116.3	122.5	—	–
European Fd.	131.3	138.3	—	–
Holborn Balanced Gwth Fd	–	–	—	–
Holborn [illegible] Gwth Fd	–	–	—	–

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	442.7	466.7	—	–
Equity	630.9	664.7	—	–
Global Equity	179.4	188.9	—	–
Fixed Interest	353.5	372.2	—	–
Property	299.2	315.0	—	–
Cash	136.3	143.5	—	–
Index Linked Gilt	159.9	168.4	—	–
Guaranteed	9.25	10.25	—	–
International Money	185.4	195.2	—	–
North American Fd	50.2	52.9	—	–
Japanese Fund	98.19	103.3	—	–
European Fund	68.5	72.2	—	–
Special Situations Fd	79.2	83.4	—	–
Communications Fund	68.4	72.0	—	–
Smaller Cos Fund	81.7	86.0	—	–

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretry. Dec 23	£117.59	121.10	—	–
Equity Fund Dec 23	£125.98	129.82	—	–
Intntl Fund Dec 23	£19.54	20.19	—	–
Intl Bond Fd Dec 23	£10.04	10.38	—	–
Fixed Int Dec 23	£64.64	65.47	—	–
Index Linked Dec 23	£48.27	48.87	—	–
Property Fund Dec 23	£76.93	81.64	—	–
Cash Fund Dec 23	£19.9340	19.9340	—	–
Pre-Linked Retirement Plan				
Managed Fd Dec 30	291.6	303.8	—	–
Cash Fund Dec 30	170.8	178.0	—	–

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
	"Shorts" (Lives up to Five Years)				
26 Jul 26 Jan	Treas 7¾pc 1985–88‡‡	99¾xd	19.6	[illegible]	8.83
10Nov 10May	Exch 10½pc '88	100⅝	5.10	[illegible]	8.65
14Dec 14June	Treas 9¾pc Cv '88	100¼	9.11	[illegible]	8.79
1Jan 1Jul	Transport 3pc '78–88	[illegible]xd	[illegible]	[illegible]	6.63
25 Apr 25 Oct	Treas. 9½pc '88	100⅜	18.9	[illegible]	8.98
22 Aug 22 Feb	Treas 11½pc 1989	102¼	16.7	[illegible]	9.10
18 Oct 18 Apr	Treas 9½pc Cnv 1989	100½	11.9	[illegible]	9.07
15Nov 15May	Treas 3pc 1989	95⅝	9.10	[illegible]	6.45
14Dec 14Jun	Treas 10½pc 1989	101⅞	9.11	[illegible]	9.09
1Feb 1Aug	Exch.10pc 1989	101¼xd	25.6	[illegible]	9.10
29 Mar 29 Sep	Exch 11pc 1989	102⅜	24.8	[illegible]	9.08
15 Apr 15 Oct	Treas 5pc 1986–89	95½	8.9	[illegible]	7.77
15 May 15 Nov	Exch 10¼pcCv '89	102⅜	9.10	9.9[illegible]	8.51
15 Jul 15 Jan	Treas 13pc 1990‡‡	107¼xd	8.6	12.14	9.07
12 Aug 12 Feb	Exch 11pc 1990‡‡	103¼	16.7	10.65	9.12
22 Sep 22 Mar	Exch. 12½pc 1990	106[illegible]	17.8	11.72	9.09
8 Nov 8 May	Treas. 3pc 1990	91⅜	2.10	3.27	6.93
15 Dec 15 Jun	Treas 8¼pc 1987–90‡‡	99⅜	9.11	8.31	8.59
16Jly 16Jan	Tr. 8pc Cv 1990 (50pd)	51⅝	–	8.16	8.90
25 Apr 25 Oct	Treas. 10pcCv 1990	102⅛	18.9	9.80	9.13
22 May 22 Nov	Exch 2½pc 1990	88⅞	16.10	2.81	6.81
10 July 10 Jan	Treas 11¾pc 1991	106⅞xd	3.6	10.99	9.08
5Oct 5Apr	Funding 5¾pc '87–91‡‡	93¼	1.9	6.16	8.10
13 Nov 13 May	Treas. 3pc 1991	87⅜	7.10	3.41	7.12
12Jan 12July	Treas 10pc Cv '91 ‡‡	103⅝xd	5.6	[illegible]	8.76
25Apr 25Oct	Exch. 11pc 1991	105⅜	18.9	[illegible]	9.09
10Jun 10Dec	Treas. 8pc 1991	96⅝	3.11	[illegible]	9.02
22Jly 22Jan	Treas 12¾pc 1992‡‡	111¼xd	15.6	[illegible]	9.19
21Aug 21Feb	Treas 10pc 1992	102⅜	15.7	[illegible]	9.20
13Oct 13Apr	Treas. 8pc 1992 ‡‡	96¼	11.6	[illegible]	9.06

BRITISH FUNDS – Contd

Undated

Index–Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Yield
1Apr 1Oct	Greek 7pc Ass.⊕	45	2.11	3.50	17.42
1Feb 1Aug	Do. 6pc 28 Stb. Ass.	45	3.8	3	16.37
1Apr 1Oct	Do 4pc Mixed Ass.	45	1.10	2	14.44
1May 1Nov	Hung. '24 Ass⊕	63	5785	2.75	14.22
31May 30Nov	Hydro Quebec 15pc 2011	132⅜	3.6	14.97	11.03
31Jan 31Jly	Iceland 14½pc Ln 2016	121¼	9.7	14.42	11.88
1Mar 1Sept	Ireland 9¾pc '91–96	99⅝	10.8	9.75	10.41

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories$.	25⅜	9.10	$1.00	–	2.1
F My Ag B	Alcoa $1	25⅝	28.4	$1.20	–	2.6
–	◆Allegheny & W $0.01	527p	–	30c	–	3.1
–	Amax $1	10⅝	5785	–	–	–
Nv Mr Jn Ag	Amdahl 5c	18⅝	5.11	20c	–	0.6
Mr Je.Se.De.	Amer. Cyanamid $5	22⅞	25.8	$1.05	–	2.6
Fb My Ag Nv	Amer. Express $0.60	11⅞xd	12.1	76c	–	3.5
Fb My Au Nv	Amer. Medical Int. $1	681p	13.09	472c	–	5.8

Continued on next page

UNIT TRUST NOTES

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS – Contd

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Jan Apr Jly O	Rep NY Corpn $5	23⅝	10.12	[illegible]	–	2.7
Mr Ju Se De	Rockwell Intl. $1	9⅞	9.11	[illegible]	–	3.7
Oc Ja Ap Jly	Sara Lee $1(1/3)	187⅝xd	13.00	[illegible]	–	2.9
Mr Ju Se De	Saul (B. F.) $1	8½	10.9	[illegible]	–	1.2
Fb My Ag No	Southwestern Bell $1	18	7.7	[illegible]	–	7.1
–	Staley Continental	11	–	[illegible]	–	4.0
Mr Ju Se De	Sun Co. Inc. $1	27⅞	05.10	[illegible]	–	5.9
Ma Ju Se De	TRW Inc. $0.625	25⅞xd	11.8	[illegible]	–	3.4
Mr Ju Sp De	Tenneco $5	21⅛xd	11.8	[illegible]	–	7.8
June Dec	Do. 10pc Ln.Stk. 91-5	155xd	13.00	[illegible]	–	14.7
Mr Ju Se De	Texaco $6.25	20¼xd	31.7	[illegible]	–	8.2
Mr Ju Se De	Time Inc. $1	43⅛xd	22.8	[illegible]	–	1.3
Ja Ap Jy De	Tracor $0.33(1/3)	17⅞xd	16.9	[illegible]	–	1.3
Ja Ap Ju De	Transamerica $1	14xd	30.08	[illegible]	–	6.3
Fe My Au No	Transworld Corp $5	754p	11.11	[illegible]	–	1.5
Mc Je Se De	TRINOVA Corp	17	9.11	[illegible]	–	1.8
Mr Ju Se De	USX $1	16⅛	30.10	[illegible]	–	4.1
Mr Jn Sp De	Utd. Technologies	17⅝xd	19.5	[illegible]	–	4.4
Fb My Ag No	US West	26⅛	13.4	[illegible]	–	6.7
–	Waste Management $1	20½	15.12	[illegible]	–	–
–	Whirlpool $1.0	12⅞	–	[illegible]	–	–
Mr Ju Se De	Woolworth $3½	18¼	19.11	[illegible]	–	4.0

CANADIANS

–	ABM Gold Corp	287p	–	–	–	–
–	Abbot Energy Corp.	16½p	–	–	–	–
–	Amer. Barrick Res.	11⅛	–	–	–	–
–	American Lightwave	51p	–	–	–	–
–	Armeno	42p	–	–	–	–
–	Augmitto Expln	40p	–	–	–	–

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES – Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
	[illegible]						
–	Leading Leisure 5p	66	–	0.9	3.1	1.9	19.1
–	Lynx Tech. 5p	65	–	b–	–	–	7.5
–	M.L. Laboratories 1p	109	–	–	–	–	–
–	Medirace 10p	90	–	–	–	–	–
–	Owoca Gold IR 2p	43	–	–	–	–	–
–	Propeller 1p	38	–	W–	–	–	11.9
–	Publishing Hldgs.5p	26xr	–	–	–	–	15.6
–	Seacon Hldgs.	80	–	–	–	–	12.2
–	Theme Holdings	47	27.4	1.0	1.9	2.9	25.2
–	Tomorrows Leisure 20p	48	–	–	–	–	19.2
–	UPL Group 10p	130	–	L2.41	2.8	2.5	19.5
–	Unit Group	120	9.11	R4.6	2.5	5.3	(8.6)
–	Video Tape Recording 5p	85	–	L2.3	2.3	3.7	12.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ♦ Not comparable

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

CPI Hldgs.	43	
Carrol Inds.	145	–5
Dublin Gas	40 ≠	
Hall (R. & H.)	105	
Heiton Hldgs.	43	
Irish Ropes	158½	
Unidare	250	–50

IRISH

Fund 11¾% 1988	£100⅝	–⅛
Nat. 9¾% 84/89	£99¼	+⅛
Fin. 13% 97/02	£113⅛	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied–Lyons	42
Amstrad	20
BAT	57
BOC Grp.	46
BSR	13
BTR	35
Barclays	52
Beecham	52
Blue Circle	44
Boots	20
Bowaters	43
Brit Aerospace	42
Brit. Telecom	28
Burton Ord	32
Cadburys	30
Charter Cons	43
Comm Union	40
Courtaulds	42
FKI Babcock	14
FNFC	51
Gen Accident	105
GEC	22
Glaxo	155
Grand Met	55
GUS 'A'	155
Guardian	110
GKN	36
Hanson	19
Hawker Sidd	55
ICI	145
Jaguar	42
Ladbroke	40
Legal & Gen.	33
Lex Service	35
Lloyds Bank	38
Lucas Inds	62
Marks & Spencer	24
Midland Bk	47
Morgan Grenfell	37
NEI	15
Nat West Bk	67
P & O Dfd	65
Plessey	20
Polly Peck	36
Racal Elect	30
RHM	40
Rank Org Ord	65
Reed Intnl	50
STC	29
Sears	18
TI	35
TSB	16
Tesco	22
Thorn EMI	64
Trust Houses	28
T&N	22
Unilever	62
Vickers	22
Wellcome	47
Property	
Brit Land	32
Land Securities	55
MEPC	54
Peachey	47
Oils	
Brit Petroleum	33
Britoil	28
Burmah Oil	52
Charterhall	7
Premier	10
Shell	135
Tricentrol	15
Ultramar	24
Mines	
Cons Gold	125
Lonrho	29
RTZ	48

A selection of Options traded is given on the London Stock Exchange Report Page

UK COMPANY NEWS

Dee considers cutting links with Citibank

BY MARTIN DICKSON

Dee Corporation, the supermarkets business, is considering severing its links with Citibank because of the U.S. bank's large role in financing the hostile £2bn bid for the group from Barker & Dobson, the much smaller sweets manufacturer and retailer.

Mr Alec Monk, chairman of Dee, yesterday bitterly attacked Citibank for its part in the bid, and said that only last summer the bank had approached Dee offering to fund a management buy-out of the company. Citibank suggested this as a solution to the underperformance of the Dee share price. But after discussions both that and a subsequent scheme to buy in Dee's shares had been rejected by the company.

Citibank is banker to Herman's, Dee's large sporting goods subsidiary in the U.S.

No comment was available yesterday from Citibank. But Mr Bay Green, of Kleinwort Benson, which is advising Barker & Dobson on its bid, said it would be "complete rubbish" to suggest that Citibank had been involved in the initiation of the Barker bid.

He said the bid had been devised solely by himself and Mr John Fletcher, the chairman of Barker. Kleinwort Benson, which arranged the £1.6bn bank loan syndicate, had only approached Citibank, which is providing £650m of the funds, at the end of November as one of a number of possible contributors to the package.

Mr Monk said Dee was also reviewing its ties with Chemical Bank, which is providing £300m towards Barker's bid package.

The highly leveraged nature of Barker's bid is expected to to be roundly attacked by Dee today when it unveils its defence document.

Mr Monk seems likely to argue that Barker's plans to reduce the level of gearing, by selling off Dee's superstores, would rip out a part of the group with very good prospects. The document is also expected to emphasise the group's record of rapid expansion over the six years since Mr Monk became chairman.

However, in a letter posted to Dee shareholders at the weekend, Barker argued that Dee had a number of major problems which had led to significantly reduced pre-tax profits and earnings in the first half of this year.

"Dee," it said "was the muddied result of a series of large acquisitions made over the past six years" which had created a group with no coherent strategy. The acquisition of Fine Fare, the UK supermarkets chain, and Herman's, had brought "problems which Dee's management appears to have neither the capacity nor the expertise to resolve."

The document added that Gateway, which represented nearly three-quarters of Dee's total business, was a mess. "By throwing everything into the Gateway pot, from corner shops to 70,000 square foot superstores, Dee has ruined any hope of creating a focused identity for Gateway in its present form."

But Mr Monk said last night this was just a diversionary letter designed to distract attention from the defence document and confirmed how little Barker knew about Dee's business.

Mr Monk said Citibank's buy-out approach had been rejected because only shortly before the company had been raising large amounts for capital for expansion.

Tricentrol hits back at Elf estimate

By Martin Dickson

Tricentrol, the independent oil exploration company fighting a £185m bid from Elf Aquitaine said at the weekend that the French company was trying to take it over "on the cheap" for its exploration and development potential.

In a letter to shareholders, Mr James Longcroft, the chairman, hit back at an estimate by Elf of Tricentrol's underlying asset value.

Elf had argued that Tricentrol needed very substantial external funds to meet its development programme at a time when it was highly geared. It said that if the UK company put in place a £350m finance package then, in Elf's opinion, the underlying value of Tricentrol's assets was very substantially less than the 145p a share it was offering, and was closer to 80p.

Mr Longcroft said the figure was substantially at variance with the board's opinion that the offer was inadequate. He was surprised Elf should publish such a figure without stating the bases or assumptions for it and without any independent support.

He said he would be writing to shareholders later on the underlying value of the assets, the prospects for the company and its financing programme. Tricentrol's share price, he pointed out, continued to be well above the Elf offer price. It closed on New Year's Eve at 158½p.

Elf replied yesterday that nothing Tricentrol had stated so far altered its opinion that its offer was generous." Tricentrol is loss-making, non-dividend paying and highly geared, " it went on. "It continues to have a bleak future as an independent company."

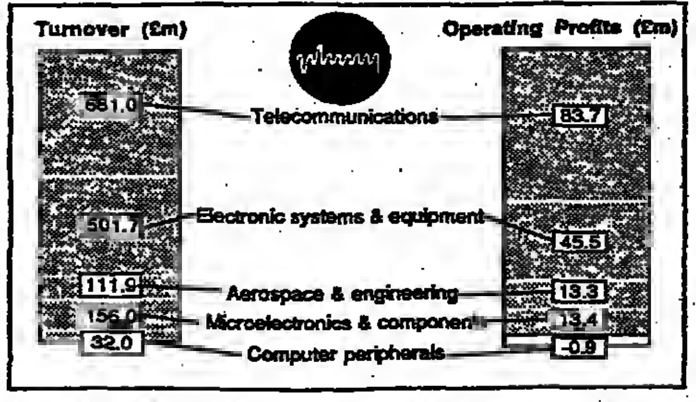
However, Mr Longcroft said that Tricentrol had an excellent spread of acreage in the UK and internationally and it had three major developments in immediate prospect: Wytch Farm, Amethyst and North Ravenspurn.

"From existing reserves alone we expect Tricentrol's production will increase four-fold over the next five years."

He also hit back at Elf's criticism of Tricentrol's exploration success and said that although the French company had been involved in the UK continental shelf for over 20 years "it has made no commercial discovery or development as operator."

David Buchan examines a change of emphasis at Plessey

A multinational defence policy



Plessey is suddenly becoming heavily weighted towards defence, at least in terms of business over which it has total management control.

In April, it will place its civil telecommunications activities, more than half its current £1.5bn total annual turnover, into the new joint venture with General Electric Company. Shorn of that, Plessey's £500m a year defence business will acquire new importance, dwarfing its semi-conductor activities which even with its latest acquisition from Ferranti only turn over some £130m a year.

It therefore sees an urgent need to put its defence business on a broader and more stable geographical footing. Mr Philip Parker, marketing director of Plessey Electronic Systems which oversees the company's radar, avionics, naval and army communications activities, explained in a recent interview that Plessey's defence business had been traditionally 75-80 per cent in the UK.

While the UK bought around £2.5bn in new defence equipment a year, the world "total addressable market" for Plessey, as Mr Parker puts it, was much bigger.

But, in contrast to UK rivals like GEC Avionics which have successfully built up exports on home-based manufacturing and technology, Mr Parker explained that "instead of being export-oriented, we would like to become multinational". The means might be further acquisitions abroad, joint ventures or strategic alliances with foreign companies, but the "overweening requirement is to integrate ourselves into the international defence infrastructure". To this end, Mr Parker said Plessey was prepared to transfer technology abroad "at a price".

Plessey has made no secret of its desire to expand into the US defence market. Thwarted last spring by Pentagon security concerns in its bid to buy Harris, the large US defence electronics concern, Plessey temporarily settled for buying Sippican, a $50m a year specialist maker of sono-buoys which may prove a useful conduit for increased sales in the US of similar underwater naval equipment from the UK. But Plessey "remains totally open to any opportunity in the US", Mr Parker stressed.

However, the new element of Plessey's strategy is the identification of several small to medium size defence markets, which both have their own indigenous requirements and offer a potential gateway to wider regional business. Specifically, Mr Parker cited:

- Canada, where the Mulroney government was committed to extensive re-equipment and modernisation. Teamed with Garrett of Canada, Plessey has got an initial contract for the Low Level Air Defence System (LADS) and is bidding to supply army communications radios. It is also looking for Canadian partners with which to supply sonar for the Trafalgar class nuclear submarines, should Ottawa decide to buy the design for this boat from VSEL of Britain in preference to a rival French bid. Plessey already puts the sonar on the Royal Navy Trafalgar boats at the cost of £50m each.
- Spain, which Mr Parker estimates will spend $10bn over the next five years on new defence capital equipment. In the foreseeable future Madrid would like to supply up to 90 per cent of its defence electronic needs, instead of 30 per cent as today. Plessey, according to Mr Parker, would like to play a part in this, possibly by making an local acquisition or just expanding its existing corporate presence.
- South Korea, which plans $8bn in purchase of defence capital equipment over the next five years and which has a stated need for army communications radios, sonar and radar, Plessey's specialities. Plessey has won one order for a minehunting sonar, and is negotiating to try to win two more such orders.

The UK company is in early discussions with possible Korean partners about meeting the Korean army's requirements for an electronic countermeasures resistant radio such as the Raven that Plessey is selling to Australia, and for a tactical radio network like the Ptarmigan system with which Plessey has equipped the UK army.

- Egypt, to which Plessey is selling components for local manufacture of special ground radars. Mr Parker sees Egypt as a gateway to the wider Middle East defence market, just as Plessey might win business in Latin America via Spain, the Far East via Korea, and even the US via Canada.

In the not too distant future, Plessey hopes to earn half its defence revenue abroad, according to its marketing director. But identifying the foreign markets is one thing; getting identified in those foreign markets as virtually a local supplier is a much longer haul.

Investment Co. sets meeting date

The Investment Company, a small quoted investment holding group - announced on New Year's Eve that it will be holding an extraordinary meeting on February 2, at which various resolutions to remove and appoint directors will be put to shareholders.

The meeting has been requisitioned by New Centurion Trust, where Major George Webb is chairman and the principal shareholder. Major Webb is also chairman, chief executive and finance director of The Investment Company.

The three resolutions seek to remove Mr Clifford Grove as a director of The Investment Company; to remove any director appointed since December 16; and to elect Mr Paul Sims as a director.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Kleinwort Benson Gilt Fund, Sandell Perkins.
Finals- First National Finance.

FUTURE DATES

Interims-	
CAP Group	Jan 14
Clark (Matthew)	Jan 19
Thorpe	Jan 11
Finals-	
Christy Hunt	Jan 7
London Scottish Finance	Jan 11
Marley	Mar 29

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*Assoc Newsp	Jan 7	Final 4.5	Raines	Jan 12	Interim 1.0
Decca	Jan 13	Interim 1.2	THF	Jan 14	Final 4.67
Dowty	Jan 21	Interim 2.6	TSB	Jan 15	Final 1.085
Lonrho	Jan 28	Final 1.0	Wardle		
Racal Elec	Jan 26	Interim 7.685	Storeys	Jan 8	Final 4.0

FINANCIAL TIMES STOCK INDICES

	Dec. 31	Dec. 30	Dec. 29	Dec. 24	Dec. 23	Dec. 22	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.49	88.69	88.82	88.45	88.10	88.19	95.32	83.73	127.4	49.18
Fixed Interest	95.07	95.08	95.07	94.67	94.70	94.71	99.12	90.23	105.4	50.53
Ordinary	1373.3	1408.0	1382.3	1432.3	1419.4	1408.9	1926.2	1232.0	1926.2	49.4
Gold Mines	302.1	305.3	309.1	303.7	304.4	301.1	497.5	261.6	734.7	43.5
FT-Act All Share	870.22	890.92	875.62	905.12	895.48	884.84	1238.57	784.81	1238.57	61.92
FT-SE 100	1712.7	1759.8	1730.3	1791.1	1771.4	1747.4	2443.4	1565.2	2443.4	986.9

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

JAPAN

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
Closing prices December 31

[illegible]

MONTREAL
Closing prices December 30

[illegible]

Total Sales 2,230,711 shares

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 31

Continued from Page 27

[illegible]

INDICES

NEW YORK — DOW JONES

	Dec. 31	Dec. 30	Dec. 29	Dec. 28	1987-88 High	1987-88 Low	Since compilation High	Since compilation Low
♦Industrials	1938.83	1950.10	1926.89	1942.97	2722.42 (25/8/87)	1738.42 (19/10/87)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	86.69	86.64	86.59	86.45	95.51 (9/2/87)	81.26 (19/10/87)	–	–
Transport	748.86	754.43	747.71	753.57	1101.16 (14/8/87)	661.00 (4/12/87)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	175.08	174.25	173.13	174.25	227.83 (22/1/87)	160.98 (19/10/87)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 1951.26 (1966.18) Low 1912.63 (1925.73)

STANDARD AND POOR'S	Dec. 31	Dec. 30	Dec. 29	Dec. 28	1987-88 High	1987-88 Low	Since compilation High	Since compilation Low
Composite ‡	247.08	247.86	244.59	245.57	336.77 (25/8/87)	223.92 (4/12/87)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	285.86	286.95	283.04	284.27	393.17 (25/8/87)	255.43 (4/12/87)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	21.63	21.72	21.38	21.31	32.43 (25/8/87)	20.39 (7/12/87)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	138.23	138.52	136.84	137.50	187.99 (25/8/87)	125.91 (4/12/87)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	260.35	257.35	255.28	256.64	365.01 (13/8/87)	231.90 (4/12/87)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	330.47	329.70	325.53	325.60	455.28 (26/8/87)	291.90 (28/10/87)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec. 24	Dec. 18	Dec. 11	year ago (approx.)
Dow Industrial Div. Yield	3.46	3.50	3.69	3.59
	Dec. 16	**Dec. 9**	**Dec. 2**	**year ago (approx.)**
S & P Industrial div. yield	3.13	3.24	3.86	2.94
S & P P/E ratio	15.88	15.25	14.73	17.99

TRADING ACTIVITY † Volume

Millions	Dec. 31	Dec. 30	Dec. 29
New York	170.140	149.659	112.072
Amex	19.951	17.570	12.750
OTC	(a)	(a)	120.079

NEW YORK	Dec. 31	Dec. 30	Dec. 29
Issues Traded	1,982	1,984	1,976
Rises	805	1,071	511
Falls	744	506	973
Unchanged	433	407	492
New Highs	3	2	8
New Lows	31	29	33

CANADA
TORONTO

	Dec. 31	Dec. 30	Dec. 29	Dec. 28	1987-88 High	1987-88 Low
Metals & Minerals	2688.0	2708.7	2683.3	2713.1	3507.5 (5/10/87)	1988.2 (2/1/87)
Composite	3160.1	3168.1	3149.8	3159.7	4112.9 (13/8/87)	2843.9 (10/11/87)
MONTREAL Portfolio	1584.77	1602.92	1589.61	1597.17	2224.77 (16/7/87)	1435.94 (26/10/87)

NEW YORK ACTIVE STOCKS

Thursday	Stocks traded	Closing price	Change on day
P Svc Col	8,721,800	20⅞	– ⅛
Southwestern Bell	5,681,400	34⅝	+ ⅜
Cen Me Power	4,250,500	15½	– ¼
Oklaho G & E	3,033,100	29¼	—
Delmarva	2,749,900	18	+ ⅞
Boston Ed	2,459,900	18¾	– ¼
Navistar	2,367,200	4⅛	—
BankAmerica	1,899,600	6⅞	– ⅛
Pan Am	1,623,200	2⅞	– ⅛
American Express	1,602,300	22⅞	—

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed.(u) Unavailable.

	Dec. 31	Dec. 30	Dec. 29	Dec. 28	1987-88 High	1987-88 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1311.2	1298.7	1304.8	(c)	2305.9 (21/9)	1151.0 (11/11)
All Mining (1/1/80)	783.3	775.9	782.1	(c)	1462.4 (14/10)	586.9 (11/11)
AUSTRIA						
Credit Aktien (30/12/84)	(c)	180.06	182.16	180.59	232.19 (22/9)	172.01 (11/11)
BELGIUM						
Brussels SE (1/1/84)	(c)	3653.5	3618.6	3634.9	5412.2 (13/8)	3503.8 (18/12)
DENMARK						
Copenhagen SE (3/1/83)	(c)	(u)	182.45	(u)	219.76 (27/8)	179.60 (20/11)
FINLAND						
Unitas General (1975)	(c)	556.0	553.9	544.6	679.1 (15/10)	425.2 (5/11)
FRANCE						
CAC General (31/12/82)	280.7	280.4	279.9	286.5	460.4 (26/3)	270.3 (11/12)
Ind. Tendance (31/12/86)	71.8	72.4	72.4	72.9	117.2 (26/3)	69.6 (10/12)
GERMANY						
FAZ Aktien (31/12/58)	(c)	425.18	420.62	428.4	676.84 (6/1)	400.13 (10/11)
Commerzbank (1/12/53)	(c)	1299.7	1285.7	1312.3	2061.1 (17/8)	1220.9 (10/11)
HONG KONG						
Hang Seng Bank (31/7/64)	2302.75	2291.98	2301.27	2286.75	3949.73 (1/10)	1894.94 (7/12)
ITALY						
Banca Com. Ital. (1972)	487.99	489.38	485.10	489.89	767.34 (30/4)	476.27 (10/11)
JAPAN **						
Nikkei (16/5/49)	(c)	(c)	(c)	21564.00	26646.43 (14/10)	18544.00 (13/1)
Tokyo SE New (4/1/68)	(c)	(c)	(c)	1725.83	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP-CBS General (1970)	(c)	208.7	207.3	210.3	334.1 (14/8)	192.2 (10/11)
ANP-CBS Industrial (1970)	(c)	160.4	158.2	160.5	280.8 (11/8)	147.5 (10/11)
NORWAY						
Oslo SE (4/1/83)	(c)	332.72	328.84	340.61	592.04 (21/9)	307.48 (10/11)
SINGAPORE						
Straits Times Ind. (30/12/66)	(c)	823.5	810.9	824.3	1505.4 (26/8)	700.4 (7/12)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	1769.0	(u)	(u)	2499.0 (3/8)	1448.0 (5/11)
JSE Industrial (28/9/78)	(u)	1442.0	(u)	(u)	2266.0 (16/10)	1402.0 (23/11)
SPAIN						
Madrid SE (30/12/85)	(c)	227.18	223.39	224.43	325.44 (6/10)	201.08 (4/12)
SWEDEN						
Jacobson & P. (31/12/56)	(c)	2170.4	2146.3	2175.2	3550.4 (9/10)	2066.6 (10/11)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(c)	474.4	470.8	476.8	729.7 (5/10)	450.9 (10/11)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	405.9	402.8	406.4	495.9 (27/8)	361.3 (2/1)

** Saturday January 2: Japan Nikkei (c), TSE (c)

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials 264.3 and Australia, All Ordinary and Metals – 500; (c) Closed (u) Unavailable

Closing prices, December 31

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div	Yld	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev Close
25⅝	14	AAR s	.36	1.8	17	244	18¾	18	18¾	+⅛
32½	18	AFG s	.16	.6	9	193	27⅜	27	27	−½
27	10⅛	AGS n			15	376	17	16⅝	16⅞	−¼
10½	6¼	AMCA				63	6⅞	6½	6¾	+⅛
6⅞	3¼	AM Int			34	3456	4⅞	4⅝	4¾	+⅛
65½	28¼	AMR			18	4314	35¼	34¼	35¼	−⅝
27½	24⅛	ANR pf2.67		11.		2	25½	25⅛	25⅛	
12¼	6⅝	ARX n			7	1372	7	6⅞	6⅞	
73½	35⅞	ASA	2a	4.0		565	50¼	49¼	49⅝	+¼
22⅜	9½	AVX			19	436	15⅛	14⅛	15⅛	+⅝
67	40	AbtLab	1	2.1	19	3750	48	47⅛	48	+¼
28	15⅜	Abitibi g				19	20⅝	20½	20½	−½
16¾	8⅛	AcmeC .40		3.3	17	196	12⅝	12	12⅛	−¼
10⅛	6⅛	AcmeE .32b		4.1	27	56	7¾	7¼	7¾	+¾
28	14⅛	AdaEx 3.44e		23.		549	14⅞	14⅝	14⅞	+⅛
19½	8⅞	AdamMl.24		2.5	8	136	9⅞	9½	9¾	
24⅞	7½	AMD				4376	10	9¼	10	
58¾	29¼	AMD pf	3	8.8		36	30½	30	30⅛	+⅜
11⅞	4⅝	Adobe				266	5½	5	5¼	+⅛
20½	15¾	Adob pf1.84		11		5	17	16⅞	17	+¼
15	6⅛	Advest .12a		1.7	8	831	7¼	6½	7⅛	+⅛
68¼	43¾	AetnLf 2.10		6.1	8	1422	45¾	44½	45¼	+⅝
83½	34¾	AflPb s .40		.7	9	446	57	53⅝	57	+3⅜
26⅞	13	Ahmans.88		5.3	7	2865	16½	15¼	16½	+⅞
5⅜	1¾	Aileen				229	2⅛	1⅞	2	+⅛
53⅞	29	AirPrd	1	2.5	14	992	41¼	40⅛	40¾	+¼
35	11⅛	AirbFrt .60		4.0	9	424	14⅞	14⅛	14⅞	+⅛
18⅛	8¾	Airgas			15	70	10⅜	10	10⅜	+⅛
19½	13½	AirleaseB.16e		14.	9	265	16½	15½	15½	−¼
15-32	5-16	AlMoan			31	398	11-32	5-16	5-16	
27¾	25⅜	AlaP pf1.95e		7.9		5	25¾	25¼	25¾	
10¾	7⅝	AlaP dpf.67		8.6		22	9⅛	9⅛	9⅛	

Continued on Page 27

NYSE COMPOSITE CLOSING PRICES

Continued from Page 26

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
107	99¾	PaPL pf9.24		9.2		z70	100⅛	100⅛	100⅛	-⅞
96¼	74	PaPL pr 8		10.		z320	78¼	78¼	78¼	+¼
55¼	34¼	Pennwlt 2.40		5.3	13	770	45¼	44½	45	
39½	20½	Pennw pr1.60		5.9		12	27	26⅝	27	+1
95	38⅛	Pennzoil2.20		3.1	54	1488	71⅛	70¼	71	+½
26⅜	14¼	PeopEn1.44		9.4	9	576	15⅜	15	15¼	+¼
18⅞	9½	PepBy s .08		.6	22	689	14¼	13⅝	13¾	-½
42¼	25⅛	PepsiCo.68		2.0	18	3449	33½	32½	33⅜	+⅛
12¾	7⅜	PerkF 1.20a		13.	12	266	9¼	8⅞	9	
41⅛	10½	PerkEl .60		2.5		1367	24¼	23⅝	24	+¼
8⅛	5⅛	Prmian.55e		9.2	13	611	6⅛	6	6	
10¼	6¾	PrLP pr1.15		14.		327	8⅛	7⅞	8⅛	-
15⅞	5¼	PeryDr.22j				1240	5⅝	5⅜	5½	
40	14⅛	Petrie .20		1.3	11	2057	15⅞	15⅜	15⅝	+⅛
21¼	15⅜	PtPar n 2		12.	11	737	16⅜	15⅝	16¼	+½
33½	20½	PetRs 3.98e		19.		236	20⅞	20½	20¾	-⅛
19¾	15	PetRs pf1.57		10.		2	15¾	15¾	15¾	+⅛
2⅛	¾	Ptrinv .16e		17.		100	15-16	15-16	15-16	
77	40	Pfizer 1.80		3.9	11	2891	47⅝	46⅝	46⅝	-1¼
56	20½	PhelpD .60		1.3	24	2218	47	45⅝	47	+1
74	37	PhlpD pf 3		4.6		126	62½	62	62½	-¼
23	16¾	PhilaEl2.20		12.	8	4182	18¾	18⅛	18⅝	+¼
45⅛	34	PhE pfA3.80		9.4		z120	40½	40½	40½	-½
87⅛	62¼	PhE pfE 7		11.		z500	62⅝	62½	62½	-⅛
97⅛	69	PhE pfG8.75		11.		z700	76	75¼	76	-⅛
13¾	11	PhE pfR1.41		12.		20	12⅛	12⅛	12¼	+⅛
[illegible]										

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
31½	19⅛	XTRA	.64	3.0	14	81	21¼	21⅛	21⅛	-⅛
28¼	19⅛	XTRA pf1.94		8.9		9	21⅞	21⅞	21⅞	+⅜
33⅞	16¼	Yorkin			10	118	24	23⅞	24	
7¼	2¼	Zapata				1062	2¾	2½	2⅝	-⅛
37	13½	Zayre	.40	2.9	8	5001	14⅝	13⅞	13⅞	-⅝
16⅛	8¾	Zemex	.40	4.4	8	33	9⅛	9	9	-¾
33⅞	13	ZenithE				1283	15	14½	15	+¼
13½	2⅛	ZeoLab				5486	3	2⅞	2⅞	-⅛
26½	13½	ZenNtl	.80	5.3	7	456	15¾	15	15	-¼
20⅝	11⅝	Zero	.36	2.4	16	213	15⅛	14⅝	15	
36¾	18	Zurnin s	.88	3.8	15	247	19¼	18⅞	19⅛	
10⅝	7⅛	Zweig	.92e	10.		542	9⅛	9	9	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
U U U										
27⅛	11⅜	UDC	2.20	16.	5	546	13¾	13⅝	13¾	+⅛
32	21¾	UGI	2.04	8.0	11	88	25⅝	25	25½	+⅜

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices December 31

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, closing prices, December 31

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 25

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Faith evaporates leaving little hope or charity for dollar

BY COLIN MILLHAM

FINANCE MINISTERS from the major industrial nations, then known as the Group of Five, met in New York on September 22, 1985 and decided the dollar was too strong. The US currency then began the long decline from levels of around Y240 and DM2.90.

They met again, as the Group of Seven, at the Louvre in Paris on February 22 last year, and decided the dollar was too weak, at around Y150 and DM1.80. This did not produce any recovery, but did succeed in keeping the currency steady for about eight months.

Underlying sentiment did not change and remained fixed against the dollar, but the fear of central bank intervention prevented any fall.

With hindsight it may be said the dollar was held artificially high, as the US trade deficit in 1987 continued to mount and the Reagan Administration showed no willingness to take the necessary steps to cut the Budget deficit. Its fall since late October may now be regarded as a catching up period.

Eventually it was disappointment with the August trade figures, announced on October 14, that started the dollar on its present slide. The August deficit was an improvement on the then record $16.47bn in July, but the market finally ran out of patience, and decided the trade trend was not good enough to sustain the dollar's value.

This was followed by the crash in share prices on October 19, as Mr James Baker, US Treasury Secretary, criticised West Germany for a rise in interest rates, leading to doubts that the G7 were in complete agreement about economic policy.

As faith in the Louvre accord evaporated, fears increased that the US attitude towards its own currency was the real problem. The market saw a period of economic slump, and a falling dollar, as the US tried to head off a full scale recession in the run up to this November's US Presidential election.

At the start of 1988 this is still the general view. Many economists believe the October US trade deficit of $17.63bn will prove to be the peak of the present cycle, and that an improvement is now likely as US goods become more competitive and US consumption of foreign goods slackens.

Stockbroker, James Capel, expects the the current account deficit in 1988 to shrink to $135bn from $162bn last year, with monthly trade deficits averaging around $11.7bn, compared with $14.6bn in 1987.

But James Capel adds "This pace of improvement will not be rapid enough to prevent erratically poor numbers from causing sporadic sell offs of the dollar, which will take it to successive new lows during 1988."

Capel forecasts the dollar to fall to Y120 and DM1.55 by the end of the year and sterling to rise to $1.90.

Other forecasters also see a further weakening of the US currency during 1988, if only because President Reagan will not wish to harm the Republicans chance of retaining possession of the White House.

It may be less harmful for the Republicans to let the dollar take the strain rather than take effective economic measures by raising interest rates and taxation.

Past experience has shown that the party in power suffers if the US voter sees a reduction in disposable income.

How far Mr Alan Greenspan, chairman of the Federal Reserve Board, is prepared to go along with this policy is not yet clear, but it is a long time to November.

£ IN NEW YORK

Dec.31	Close	Previous Close
£ Spot	1.8860-1.8870	1.8590-1.8500
1 month	0.23-0.20pm	0.23-0.20pm
3 months	0.65-0.60pm	0.63-0.58pm
12 months	2.40-2.30pm	2.50-2.40pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.31	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1539	+1.64	+0.97	±1.5344
Danish Krone	7.85212	7.94457	+1.18	+0.51	±1.5404
German D-Mark	2.05853	2.06034	+0.09	-0.58	±1.0981
French Franc	6.90403	6.98335	+1.15	+0.48	±1.3674
Dutch Guilder	2.31943	2.31762	-0.08	-0.75	±1.5012
Irish Punt	0.768411	0.777888	+1.23	+0.56	±1.6684
Italian Lira	1483.58	1521.66	+2.57	+2.35	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8660-1.8820	1.8780-1.8790	0.23-0.20cpm	1.37	0.65-0.60cpm	1.33
Canada	2.4290-2.4479	2.4440-2.4450	0.13-0.04cpm	0.42	0.20-0.08pm	0.23
Netherlands	3.31½-3.33¼	3.32½-3.33½	1⅛-⅞cpm	4.05	3¼-3⅛pm	4.13
Belgium	61.76-62.27	61.95-62.05	19-1cpm	1.94	43-21pm	2.06
Denmark	11.38¼-11.50¼	11.41¾-11.42¾	⅜pm-1⅛oredis	-0.33	⅞-2⅞dis	-0.66
Ireland	1.1161-1.1236	1.1195-1.1205	0.02-0.06pdis	-0.43	0.02dis-0.06pm	0.07
W. Germany	2.95-2.96¾	2.95½-2.96½	1⅜-1¼pfpm	5.57	4⅛-3⅞pm	5.24
Portugal	243½-247½	245½-246½	70-190cdis	-6.34	242-553dis	-6.46
Spain	201.27-204.58	201.70-202.00	25-63cdis	-2.62	13¼-187dis	-3.20
Italy	2180-2193¾	2187½-2188½	2-10liredis	-3.29	12-22dis	-3.11
Norway	11.64½-11.74¾	11.69¾-11.70¾	5½-7¼oredis	-6.54	17¾-19¾dis	-6.43
France	9.97¾-10.08¾	10.03-10.04	par-⅞cdis	-0.52	½-1⅞dis	-0.47
Sweden	10.80½-10.87¼	10.86¼-10.87¼	½-⅞oredis	-0.69	½-2dis	-0.46
Japan	226¾-228½	227½-228½	1⅛-⅞ypm	4.61	2⅞-2¾pm	4.90
Austria	20.83-21.00	20.88-20.92	8¾-7⅛gropm	4.42	23-20½pm	4.17
Switzerland	2.38-2.40¼	2.39-2.40	1½-1cpm	6.26	3⅞-3⅝pm	5.64

Belgian rate is convertible francs. Financial franc 62.30-62.40. Six-month forward dollar 1.32-1.27cpm 12 month 2.40-2.30cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8660-1.8820	1.8780-1.8790	0.23-0.20cpm	1.37	0.65-0.60pm	1.33
Ireland†	1.6665-1.6820	1.6810-1.6820	0.14-0.08cpm	0.79	0.58-0.43pm	1.20
Canada	1.2980-1.3020	1.2995-1.3005	0.13-0.16cdis	-1.34	0.37-0.42dis	-1.22
Netherlands	1.7710-1.7880	1.7720-1.7730	0.41-0.36cpm	2.61	1.27-1.20pm	2.79
Belgium	32.95-33.27	32.95-33.05	3dis-par	-0.55	9-4dis	-0.79
Denmark	6.07¾-6.12¾	6.07¾-6.08¼	0.50-1.10oredis	-1.58	2.70-3.30dis	-1.97
W. Germany	1.5725-1.5895	1.5735-1.5745	0.53-0.50pfpm	3.93	1.56-1.51pm	3.90
Portugal	129¾-130¼	129¼-129¾	60-90cdis	-6.91	190-250dis	-6.76
Spain	107.50-108.10	107.70-107.80	25-75cdis	-5.57	100-150dis	-4.64

LIFFE LONG GILT FUTURES OPTIONS

Estimated volume total, Calls 214 Puts 255
Previous day's open int: Calls 28536 Puts 14500

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	6.53	6.44	0.27	1.08
84	5.10	5.19	0.48	1.47
86	3.47	4.05	1.21	2.33
88	2.16	3.04	1.54	3.32
90	1.29	2.15	3.03	4.43
92	0.57	1.38	4.31	6.02
94	0.31	1.06	6.05	7.34
96	0.16	-	7.54	-

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 847 Puts 772

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Jan	Calls-Last Feb	Puts-Last Jan	Puts-Last Feb
16000	11.20	13.89	2.20	4.89
16500	7.90	10.93	3.90	6.93
17000	5.27	8.43	6.27	9.43
17500	-	-	-	-
18000	1.98	4.71	12.90	15.71
18500	1.11	3.42	17.11	19.42
19000	0.59	2.43	21.59	23.43
19500	0.30	-	26.30	-

Estimated volume total, Calls 20 Puts 0
Previous day's open int: Calls 8 Puts 32

LIFFE $/£ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
1.65	23.75	23.75	23.77	23.75	0.00	0.00	0.02	0.35
1.70	18.76	18.77	18.86	19.07	0.01	0.02	0.11	0.78
1.75	13.80	13.89	14.14	14.86	0.05	0.14	0.39	1.37
1.80	9.09	9.33	9.84	11.12	0.34	0.58	1.09	2.83
1.85	5.06	5.49	6.25	7.97	8.70	1.31	1.74	2.50
1.90	2.25	2.74	3.57	5.45	3.50	1.99	4.82	7.16
1.95	0.76	1.13	1.81	3.55	7.01	7.38	8.06	10.26

Estimated volume total, Calls 20 Puts 0
Previous day's open int: Calls 331 Puts 424

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
1.55	-	-	25.65	25.65	-	-	0.40	0.30
1.60	23.90	-	23.90	23.80	0.30	-	0.30	0.50
1.65	18.90	-	18.50	18.65	0.30	-	0.50	1.30
1.70	13.25	13.25	13.35	13.55	0.30	0.60	0.80	2.30
1.75	8.35	8.85	12.40	10.40	0.65	1.30	1.35	3.35
1.80	9.00	7.60	7.45	11.10	0.45	2.55	2.40	5.25
1.85	4.05	5.50	5.10	8.10	1.35	4.95	5.75	6.00

Estimated volume total, Calls N/A Puts N/A
Previous day's open int: Calls 828 Puts 223

BASE LENDING RATES

■ Members of the Accepting Houses Committee. * 7 day deposits 3.50% Sumwise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. § Demand deposit 3.49%. Mortgage 10%-10.25%

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	Thu Dec 31 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	Wed Dec 30 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	Dollar Index 1987 High	1987 Low	Year ago (approx)
Australia (88)	104.73	+2.0	82.66	96.44	4.27	102.69	81.89	94.92	180.81	85.36	100.00
Austria (16)	100.74	+1.7	79.51	82.43	2.51	99.03	78.98	82.14	102.87	85.53	100.00
Belgium (48)	103.15	+0.9	81.41	84.45	5.56	102.22	81.52	84.45	134.89	94.63	100.00
Canada (127)	110.44	-0.1	87.17	103.97	2.99	110.57	88.18	104.33	141.78	98.15	100.00
Denmark (38)	115.47	+1.2	91.13	95.48	3.06	114.15	91.04	95.48	124.83	98.18	100.00
France (121)	86.10	-0.2	67.96	72.16	3.65	86.27	68.80	73.00	121.82	77.39	100.00
West Germany (93)	77.29	+1.3	61.00	63.24	2.97	76.32	60.86	63.24	104.93	68.91	100.00
Hong Kong (46)	89.04	+0.7	70.27	88.70	5.99	88.43	70.52	88.12	158.68	73.92	100.00
Ireland (14)	104.71	-1.5	82.64	87.74	5.10	106.30	84.77	90.15	160.22	93.50	100.00
Italy (94)	77.73	+0.6	61.35	67.63	2.80	77.24	61.60	67.86	112.11	72.04	100.00
Japan (457)	141.39	+1.6	111.59	108.46	0.63	139.10	110.93	108.46	161.28	100.00	100.00
Malaysia (36)	111.67	-0.1	88.14	106.94	3.40	111.80	89.16	107.24	193.64	93.76	100.00
Mexico (14)	105.48	+2.0	83.25	258.91	1.16	103.36	82.43	253.71	422.59	99.72	100.00
Netherland (37)	100.30	+1.2	79.16	81.14	5.48	99.15	79.07	81.14	131.41	87.70	100.00
New Zealand (20)	76.17	+0.5	60.11	61.28	5.48	75.80	60.45	61.26	138.99	73.39	100.00
Norway (24)	101.75	+0.3	80.31	86.01	3.15	101.47	80.92	86.39	185.01	95.51	100.00
Singapore (26)	97.32	-0.1	76.81	89.45	2.71	97.42	77.69	89.45	174.28	81.21	100.00
South Africa (61)	133.53	-1.5	105.38	91.22	4.71	135.55	108.11	91.89	198.09	100.00	100.00
Spain (43)	132.61	+1.1	104.66	108.25	3.85	131.21	104.64	108.25	168.81	100.00	100.00
Sweden (34)	99.11	+0.8	78.22	84.88	2.67	98.30	78.40	84.88	136.64	88.50	100.00
Switzerland (53)	83.48	+1.2	65.89	66.02	2.49	82.50	65.79	65.93	111.11	73.65	100.00
United Kingdom (332)	132.53	-1.5	104.60	104.60	4.41	134.49	107.26	107.26	162.87	99.65	100.00
USA (580)	100.53	-0.4	79.35	100.53	3.68	100.90	80.47	100.90	137.42	91.21	100.00
Europe (947)	104.53	-0.3	82.50	84.67	3.94	104.84	83.61	85.83	130.02	92.25	100.00
Pacific Basin (673)	137.94	+1.6	108.86	107.05	0.84	135.72	108.24	106.99	158.77	100.00	100.00
Euro-Pacific (1620)	124.62	+1.0	98.35	98.09	1.89	123.42	98.43	98.51	143.65	100.00	100.00
North America (707)	101.06	-0.4	79.76	100.75	3.64	101.42	80.88	101.11	137.55	92.68	100.00
Europe Ex. UK (615)	87.16	+0.8	68.79	72.11	3.51	86.44	68.94	72.30	111.97	78.89	100.00
Pacific Ex. Japan (216)	96.25	+1.3	75.96	89.99	4.66	95.01	75.77	89.04	164.03	82.92	100.00
World Ex. US (1822)	124.22	+0.9	98.04	98.33	1.96	123.10	98.17	98.75	143.38	100.00	100.00

MONEY MARKETS

Uncertainty points to caution

US INTEREST rates rose as UK rates fell during 1987, but against the background of different economic performance the change in rates was not enough to prevent the pound rising against the dollar.

Eurodollar rates rose by 1 point to around 7½ p.c., while Eurosterling rates fell by 2 to 2½ points to around 9 p.c.

Financial markets are now asking whether the US is prepared to take tougher measures, including raising interest rates, to prevent a further dollar slide?

Expectations at present are that the US is not prepared to risk a deep recession, and possibly send Wall Street crashing again, with the necessary moves to prop up the currency.

UK base rates fell from 11 p.c. to 8½ p.c. during 1987, but may have reached a floor. Only a further loss of confidence in equity markets or sharp upward pressure on the pound are likely to produce another cut, and the market sees 8 p.c. as the limit on base rates at present.

A deteriorating UK current account, high bank lending and strong consumer spending, indicate caution, and many City observers believe that even if the authorities are forced into another base rate cut it will be temporary.

The threat of overheating remains, although economists are divided on how long strong growth will continue in the UK. This uncertainty is reflected in the money market yield curve, with longer term rates pointing towards 9 p.c. base rates by the middle of the year.

UK clearing bank base lending rate 8½ per cent from December 4